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China Report

ECONOMIC AFFAIRS

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28 JANUARY 1987

CHINA REPORT ECONOMIC AFFAIRS

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NATIONAL AFFAIRS, POLICY

XUE MUQIAO ON CHINA'S SOCIALIST ECONOMY

HK191500 Beijing JINGJI YANJIU in Chinese No 10, 20 Oct 86 pp 26-35

[Article by Xue Muqiao (5641 2550 2890): "Postscript to the Japanese Translation of the Revised Edition of 'China Socialist Economy'"--written in August 1986]

[Text] "China's Socialist Economy" was written in the first half of 1979. The first edition was then translated into Japanese. In early 1983, I made a major revision of this book in the light of the experience we had gained in the restructuring of our national economy. About one-third of this book was revised and amended. Mr Kawagoe has recently translated this revised edition into Japanese. I am greatly delighted and feel immensely grateful. China's economic restructuring has far-reaching significance and has aroused the deep concern of countries the world over, particularly the Japanese people. It makes me feel good to think that the Japanese translation of this book could help our Japanese friends better understand China's economic construction and restructuring.

This book was revised some 3 1/2 years ago. Since then, a lot of new progress has been made in the restructuring of China's economy. For some years before 1983, our economic work focused on the rural areas, with only a few pilot projects and preliminary reforms being introduced in the cities. In 1984, the task of economic readjustment was, in the main, completed. Our tremendous success in rural reform provided the conditions for speeding up the restructuring of China's entire national economy. In October 1984, the CPC convened the 3d Plenary Session of its 12th Central Committee and adopted "The Decision of the CPC Central Committee on the Reform of the Economic Structure." The "Decision" was a programmatic document which set forth the task of speeding up the restructuring of China's entire national economy, with the focus on the urban economy, and determined the direction, nature and basic policies of the reform. It clearly pointed out that the socialist economy is a planned economy on the basis of the public ownership of the means of production, and that we must actively develop diversified economic forms and ways of operation, establish a planning and management system under which the law of value is fully utilized, and energetically develop the socialist planned economy. This is a major theoretical breakthrough. Since the 3d Plenary Session of the 12th CCP Central Committee, important steps have been taken in our structural reform and the system of ownership has seen new changes. We have also made a big stride

forward in the price reform and are continuing to shift macroeconomic management to indirect control by economic means. However, the road of reform is not a thoroughfare, neither is it one of plain sailing. At the end of 1984, our credit and growth of consumption funds went out of control. This led to the "super high-speed" growth of industrial production in 1985. New factors of instability were seen in economic development. Economic reform needs a flexible environment, and "super high-speed" economic growth is by no means conducive to the smooth conducting of reform. In the light of this situation, we slowed down the pace of economic development temporarily in 1986. At the same time, we also slowed down the pace of reform while preparing ourselves for further reform in 1987. These experiences were summed up in an all-round way in the "Proposal of the CPC Central Committee for the Seventh 5-Year Plan for National Economic and Social Development" in September 1985 and the "Report on the Seventh 5-Year Plan" adopted at the Fourth Session of the Sixth NPC in March 1986. These will guide us in doing a better job of carrying out economic construction and restructuring during the Seventh 5-Year Plan.

Judging by practice over the past 3 years and more, the central idea and basic concepts of the revised edition are correct. However, part of the content is already becoming outdated. On this occasion of the publication of the Japanese edition, I find it necessary to write a postscript to explain and clarify the following important points.

1. On the Development and Changes of the Public Ownership of the Means of Production

When I wrote the postscript to the first edition in 1981 and revised the book in January 1983, I had modified some of my previously-held concepts. I tried to explain that we should not attempt the impossible by enforcing a unitary system of public ownership in the elementary stage of socialism. Although public ownership is the mainstay and the sectors under state and collective ownership are the basic economic forms, we must also have diversified forms of operation and allow other economic forms, such as the individual economy, foreign enterprises, and joint ventures to exist within a given scope. The revised edition analyzed the nature of the two systems of socialist public ownership and other economic forms, as well as the direction of reform. The basic concepts are still correct. With the development of economic restructuring in the past few years, however, the relationships between different systems of ownership have undergone changes and become much more complicated than they were before. The specific forms of the economic sectors under state and collective ownerships have undergone further changes, and there is mutual influence and interpermeation between different systems of ownership. I now realize that I have underestimated the complexity of the specific forms of ownership during the elementary stage of socialism in China and have not said enough on this subject.

The specific form of ownership by the whole people (in China it took the form of state ownership) had never been homogenous even before the reform. Some of our enterprises were local state enterprises. This was a kind of public ownership on a local scale (province, city or county). In the course of reform in recent years, the specific form of state ownership has undergone further changes. In

the past, state-owned enterprises, including local state-run enterprises, carried out production and operation in accordance with mandatory plans, with the local governments assuming overall responsibility for their profit and loss. Whether they made a profit or lost money, all enterprises "ate from the same big pot" of the state. We used to call these state-owned enterprises state-run enterprises, regarding the practice of unified responsibility for profit and loss and of carrying out production and operation in accordance with mandatory plans as the intrinsic features of the state sector, as distinct from the collective sector of the economy. However, this system can no longer meet the needs of the development of the productive forces in China. Among our state-owned enterprises, particularly those in the retailing and service trades, there are some small enterprises which operate with a small staff on a small capital, and which engaged in diversified fields of production and operation on a small scale. It is obviously not a good idea to ask these small enterprises to carry out production and operation in accordance with state plans, with the state taking care of their profits and losses. In the last couple of years we have been trying out the methods of contracting or leasing these enterprises to their staff and workers, who are then required to hand over a fixed amount of profit or assume sole responsibility for their own profit or loss after paying for the lease. The pilot projects showed good economic results. After adopting these methods, the original capital of these enterprises is still owned by the state, but in other respects they are not much different than the present system of collective ownership. Small enterprises leased to the staff and workers will increase accumulation on their own initiative in the course of future development. Ownership of these enterprises may be transferred to the staff and workers and come under collective ownership.

A few thousand large- and medium-sized state-owned enterprises constitute the major part of the economic sector under ownership by the whole people. Under socialist conditions, ownership and the power of operation in these enterprises should be appropriately separated. Enterprises should be made relatively independent commodity producers and operators that are responsible for their own profit and loss. We are now carrying out reform step by step in this direction. Once the reform is accomplished, most of the major differences between state-owned and collective enterprises in terms of their methods of operation will have disappeared.

The specific form of China's collective ownership is even more complicated. In the cities, we have the so-called "large collectives" in the sector under collective ownership to begin with. They were formerly cooperative factories formed by the merging of numerous small private factories, handicraft cooperatives and small factories run by government offices after the socialist transformation. At first they were managed by the handicraft general cooperative. Later the Second Ministry of Light Industry was set up under the Ministry of Light Industry, and this is now renamed the handicraft general cooperative again. After some 20 years, these cooperative factories have already developed from handicraft enterprises into mechanized factories. Rather than sharing out profits as was the case in cooperatives in general, these factories retained some of their profits after paying income tax and handed over the lion's share

to the Second Ministry of Light Industry for unified disbursements. These amounts were expended in a planned way on the extension and renovation of existing enterprises and the building of new factories within the jurisdiction of the Second Ministry of Light Industry without being handed back to the financial departments for allocation. There was also very little difference between the way the Second Ministry of Light Industry managed the cooperative factories and the way the state managed the state-run enterprises. For this reason, these factories were often referred to as "big collectives representing ownership by the whole people on a small scale." They in fact possessed some of the characteristics of local state-run enterprises. These "big collectives," which carried out commodity production in accordance with market needs and had more after-tax profits at their disposal, had made much swifter progress than did the state-run enterprises over the years. We should, in future, give these "big collectives" more decisionmaking power, instill more vitality into these enterprises by appropriately increasing the proportion of profits they are allowed to retain and improving the method of distribution, and eventually make them responsible for their own profits and losses.

In the cities, there are also "small collectives" which have come into being in the last 20 years. In the 1950s there were some handicraft cooperatives and cooperative stores. After going through transition, during which the bigger ones were merged and "upgraded," there were not many of these left. During the 1970s a number of small collective enterprises were set up by neighborhood organizations. They were responsible for their own profits and losses and basically retained the characteristics of collective ownership. These small enterprises were beset with problems when they did not have the support of their local governments. For example, it was quite impossible to solve problems such as places for conducting business, labor insurance and welfare. Thus, many labor and production services companies were set up under the leadership of government labor departments. The "small collectives" had to pay fixed sums of accumulation and public welfare funds to these labor services companies to solve such problems as labor insurance and welfare which they could not have resolved on their own. This being the case, many of these "small collectives" were not completely independent economic units. In this sense, they bear some resemblance to the "big collectives."

The last few years have seen substantial changes in the sector of the rural economy under collective ownership. On the one hand, with the introduction of the contracted responsibility system based on the household with remuneration linked to output, the former practice of "three-level ownership with the production team as the basic accounting unit" was superseded by a collective economy which combined collective with household undertakings. This system, which incorporated the features of the individual economy and retained the form of unified undertaking of local cooperative economic setups, provided services before, during, and after production. It also gave rise to many new forms of combination. This was dealt with in the revised edition, and I am not going to elaborate on this. On the other hand, enterprises run by townships and villages (formerly these were run by communes and brigades) went from strength to strength. In some places, the annual growth rate of the output value of

township and village industries exceeded that of state-owned industries by 200 or 300 percent. For example, the output value of township and village industries in Wuxi County accounts for more than 40 percent of the district's total industrial output value. Surely these township and village industrial and commercial enterprises are collective economic units. However, they not only must submit to unified management by township and village governments, but are denied the full after-tax profits. The lion's share of the profits are at the disposal of the township or village governments. The money is partly spent as investment in renovating and setting up enterprises and in public construction, cultural and educational undertakings and collective welfare in townships and towns, and partly expended as agricultural aids to close the gap between the workers and the peasants. Thus, township and village enterprises should not be seen merely as collective enterprises owned by those working them and not subject to control by the higher authorities. They bear close resemblance to provincial and city general handicraft cooperatives and county public ownership in many respects.

Judging from the changes discussed above in the specific forms of the economic sectors under ownership by the whole people and collective ownership, we need to modify some of our previously-held concepts regarding socialist public ownership. In the past, we held that there were two distinctively different kinds of socialist public ownership, namely ownership by the whole people and collective ownership. In reality, however, the specific form of public ownership should be complex and varied in order to meet the needs of the development of production. The difference between the two kinds of public ownership in terms of their methods of operation is gradually narrowing. Although the most essential distinction is still there, the overall structure is undergoing a change and evolving into a multi-level system of socialist public ownership which is not so homogenous in content. This kind of change is in conformity with the conditions of our country and the objective laws of economic development, and therefore is more conducive to the growth of the productive forces.

Some comrades held that the above-mentioned specific form of collective ownership in the urban and rural areas showed a deviation from the principle of cooperatives and resulted in "government-run" enterprises. They were in favor of reorganizing all collective enterprises into cooperatives, with funds pooled by the workers themselves. After-tax profits were to be distributed as dividends, and members of cooperatives would reinvest their money into the enterprises when the need to expand reproduction presented itself. They were against the idea of unified allocation from the Second Ministry of Light Industry or the township or village governments concerned. Summing up past experience, I think that this is a step backward rather than a step forward. In some European countries, there are large numbers of cooperatives which resemble our elementary cooperatives in the 1950s, where members hold shares in proportion to their investment. Is the economy of these cooperatives necessarily better than the multi-level system of socialist public ownership presently practiced in our urban and rural areas? My answer is in the negative. While the capital of cooperatives is held privately by their members, capital in the economic sector under collective ownership in townships and villages is publicly held. Compared

with the cooperative system, the latter is, in many cases, more conducive to the development of production. The commune- and brigade-run enterprises which we used to have were in fact publicly-owned by their members within the framework of township or village. Now, with the township or village governments collecting some of the revenue in the place of the communes and brigades, the development of the rural economy stands to benefit. This practice is conducive to making overall plans for enlarging reproduction and to the development of public construction, cultural and educational undertakings and collective welfare in the townships and towns. At present, our price system is very unreasonable. There is a wide gap in income between different trades and professions. In particular, the income of those engaged in agriculture is much too low. Without overall planning and regulation within the framework of a township or a village, using industries to supplement and back up agriculture, agricultural production may dwindle. This will lead to serious problems in the development of the national economy. Collective ownership in townships and villages is also conducive to our efforts to achieve common prosperity on the basis of distribution according to work and recognizing the differences. Neither is cooperativization the direction for urban collective enterprises under the Second Ministry of Light Industry. The present practice where a portion of the profits is handed over to the Second Ministry of Light Industry to be expended in a planned way on developing production and welfare undertakings is a much simpler and more effective method than letting the cooperative factories share out all their after-tax profits and then asking their members to take out shares. There is no reason to abolish this practice. I have no objections to setting up cooperative enterprises in the cities and the rural areas. The majority of the urban "small collectives" are based on the collective system, and it is possible for rural enterprises under public ownership to incorporate elements of the cooperative system. An example of this is the pooling of funds to develop township and village enterprises. As I see it, cooperatives where members pool the capital and receive dividends can also be regarded as a form of collective ownership. The ways in which urban "big collectives" and rural enterprises are operated also need to be improved. For example, enterprises should be given more decisionmaking power. However, I am not in favor of reorganizing the rural enterprises under public ownership and the urban "big collectives" into cooperative bodies.

The specific form of our system of public ownership is complicated and varied not only because certain characteristics of different ownership systems are interpermeating but because lateral economic associations are developing day by day. Socialized large-scale production and the development of the commodity economy ask that we break down the existing barriers between different ownership systems, do away with the outmoded conventions in management, and bring about diversified forms of associations between departments, localities and ownership systems. In recent years various forms of associations have developed between the central and local authorities, between different localities, between local authorities and enterprises, between different enterprises, and between state-owned enterprises, collective enterprises and individuals. These associations are now in the ascendant and a situation where different ownership systems are intricately mingled will appear in the future.

The individual economy has continued to grow in the past few years. The number of self-employed specialized households in the rural areas has increased, and there are now more private industrial and commercial undertakings in the cities and towns. By the end of 1985, there were as many as 11.68 million licensed private industrial and commercial undertakings in the cities and towns, with more than 17.56 million people engaged in them. The proportion of self-employed in total urban employment had risen from 0.8 percent in 1980 to 3.8 percent in 1985. We are to continue to protect the supplementary role of the individual economy for a long time to come. However, as the scale of operation of some of the private industrial and commercial undertakings expands, it will be necessary to pool in more labor and the hiring of workers will become inevitable. This is the law of the development of the commodity economy. We will come face to face with this problem: Should we allow some of the private undertakings to develop in the direction of capitalism, or should we draw on the nationwide supremacy of socialist public ownership to channel them into the direction of cooperatives? I have said in the book that as our socialist economy is so strong, a bit of capitalism is not to be feared. For the sake of developing the productive forces, we should step by step guide them onto the new road of association. This will be a fairly long process and is going to enrich the specific form of our public ownership system.

We will have difficulty comprehending the state of affairs discussed above if we were to base our observation on the old concepts prevailing before the 1970s. There is only one criterion for judging the rationality of the specific form of the ownership system in the elementary stage of socialism, which is, to see if it is conducive to the development of the productive forces and the bettering of the people's livelihood. I think it is a good thing for the specific form of the ownership system to be slightly complicated. This is reasonable, China is a big country with 1 billion people, where economic development is very uneven and production and livelihood needs are exceedingly complicated. We must not let ourselves be constrained by the outmoded concept that there should be a clear demarcation between the two kinds of public ownership and arbitrarily oversimplify the specific form of public ownership.

Since China adopted the policy of opening to the world, there have emerged in recent years numerous enterprises which make use of foreign capital, Chinese-foreign joint ventures, and cooperative enterprises. A small number of enterprises operated exclusively with foreign capital have also been set up, thus further complicating our ownership system. Since the socialist state sector of our economy is already very strong, even if these enterprises were to develop further, they are unlikely to shake the dominant position of the socialist sector of our national economy. Besides, we have a well-consolidated democratic regime of the people, and enterprises operated with foreign capital are under the guidance and supervision of the socialist state. They are similar to the kind of state capitalism described by Lenin where the state can have control over and can fix the scope of their operation.

2. On the Development of the Socialist Commodity Economy

The decision on the reform of the economic structure adopted at the 3d Plenary Session of the 12th CPC Central Committee pointed out that the socialist economy is a planned commodity economy on the basis of public ownership. This is a new understanding of the socialist economy in the history of Marxism which points out the correct direction for the reform of our economic management system.

Marx held that by the time public ownership of the means of production was realized in the elementary stage of communism, commodity and money would cease to exist in the socialist economy because commodity production was based on the private ownership of products under conditions of division of labor in society. In this, Marx had only predicted the general trend of social development. He had not, and indeed could not have, made a concrete analysis of the complicated course of development of socialism at its initial stage. After the victory of the October Revolution, Lenin realized from practice that it was impossible to do away with commodity-money relations when small production was present everywhere. He boldly rectified the mistake of doing away with commodity-money relations under war-time communism, adopted new economic policies, restored commerce and developed the commodity economy. However, his untimely death had made it impossible for him to answer the question of whether the development of the commodity economy was a make-shift measure during the transition to socialism, or a long-term policy was to go on till the stage of socialism. His new economic policies had not developed into the guiding ideology for building socialism. After his death, the questions of commodity production and the law of value continued to be debated in the Soviet Union for a long time, and no conclusion was reached until 1952 when Stalin published his book "The Socialist Economy of the Soviet Union." In this book, he maintained that due to the presence of two systems of public ownership of the means of production, commodity production and commodity exchange will continue to exist and the law of value will continue to play a given role during the stage of socialism. This is an advance in understanding. However, Stalin was bent on practicing a highly centralized system of economic management which relied heavily on administrative means. He always wanted to narrow the scope of the commodity economy and introduce a system for the planned distribution of products. He only recognized the presence of commodity exchange between the sectors of the economy under public ownership and between state-run enterprises and the consumers, but refused to recognize the need for state-run enterprises to carry out commodity exchange among themselves. He argued that because the means of production were commodities no more, they should be allocated according to plans rather than exchanged through the market. In an attempt to narrow the scope of market regulation, he adopted the methods of planned production and planned supply even when dealing with major consumer products to be exchanged through the market. According to this line of thinking, commodity production and commodity exchange only exist as an essential "element" of the national economic structure, and the socialist economy seen as a whole is, of course, not a commodity economy.

After basically completing its socialist transformation, China followed the example set by Stalin and established a highly centralized economic structure under which management was carried out by various departments and local government organs by administrative means. Practice over the past 2 decades and more has borne out the fact that this system of management which imposes constraints on the commodity economy is not conducive to the development of the productive forces. This is manifested primarily in the rural areas. During the cooperativization of agriculture in the 1950s, particularly after the establishment of communes, we resorted to administrative means to impose constraints on the commodity economy. Rather than applying the law of value to guide production, the state subjected agricultural production to mandatory planning. Farm products were subject to unified or fixed purchases for a long time. This hampered the development of agricultural production, making it impossible for the rural economy to develop on a specialized and commercial basis. In the cities, the state also resorted to administrative means and mandatory plans to direct the economic activities of enterprises. The state did not give the enterprises the necessary decisionmaking power and economic benefits, and did not recognize them as relatively independent operators of commodity production. As a result, enterprises became the appendages of administrative organs and merely carried out production and marketing in accordance with mandatory plans handed down by their higher authorities. They did not pay any attention to market needs because there was no pressure from competition. Lacking vigor and vitality, they also did not have the capacity to carry out renovation or to develop. Meanwhile, as a result of the direct management of economic activities by administrative organs at various levels, the national economy was carved up between departments and regions, and lateral ties within society and within the economy were destroyed. The most important consequences of the artificial checking and undermining of the development of the commodity economy is that the economic activities of the whole society become wanting in efficiency, so that there is no way for the socialist system to fully demonstrate its superiority. In order to give full scope to the superiority of the socialist system, we must recognize that the socialist economy is a planned commodity economy, preserve and fully utilize the form of the commodity, and ensure that the management system meets the needs of the development of the commodity economy.

Materialists should not adopt a hostile attitude toward the commodity economy. The commodity economy is an insuperable stage in socioeconomic development. The natural economy will invariably develop into the commodity economy. The natural economy is an economic form where the level of production is extremely low and there is no division of labor in society. As the level of production rises and division of labor emerges in society, the commodity economy will become the inevitable form of economy in society. Commodity and money will cease to exist only after production in society reached a very high level of development and a unified public ownership system encompassing the whole society and distribution according to need are realized. The commodity economy spans several economic formations of society and plays a significant role in [word indistinct] on social production. During the long years of the slave society and the feudal society, the natural economy was dominant and the development of production was sluggish. After the self-sufficient natural economy was eventually crushed by the division of labor in society and by the

development of commodity production, the productive forces developed swiftly and small production moved toward socialized large-scale production, thus preparing the grounds for the domination of capitalism for centuries to come. The further development of large-scale socialized production over and beyond the scope that can be contained by private ownership will provide the material foundation for socialism. The facts of history tell us that there is no large-scale socialized production without the development of the commodity economy, and no victory of socialism without large-scale socialized production. By the time we reach the stage of socialism, the form of ownership will still be varied. Even in the state sector of the economy where the means of production are owned by the state, it will still be necessary for the state-owned enterprises to carry independent economic accounting in order to achieve better economic results. They will still find it necessary to carry out exchange of equal values, and the law of value will still play an important role. Thus, exchange between state-owned enterprises will have to be commodity exchange. Since exchange between state-owned enterprises is commodity exchange and the means of production are commodities, the socialist economy will remain a commodity economy under the guidance of state plans. The socialist economy cannot develop smoothly if we refuse to develop the commodity economy.

In China today, we really should develop the commodity economy even further. Old China was a semi-colonial and semi-feudal country where the natural economy held the sway, the commodity economy was underdeveloped, and large-scale socialized production remained at an elementary stage of development. As a result of the combination of various historical factors, the Chinese working class won political power under backward economic conditions and quickly accomplished the socialist transformation of the private ownership of the means of production. However, without the commodity economy and the full development of large-scale socialized production, there was no way that we could consolidate the socialist system and help it reach maturity. Our pressing task is to conquer the predominance of small production and transfer the entire national economy onto the foundation of modernized and large-scale socialized production. In the past, we imposed constraints on the commodity economy and tried to build up large-scale socialized production by administrative means. The result was not a very successful one. Although the people's communes were established in the rural areas, they were basically the reestablishment of the natural economy or semi-natural economy on a larger scale. Although sizeable enterprises were set up in large numbers, direct administrative management by departments and regions had robbed them of their vitality and discouraged the formation of reasonable lateral ties within the economy of society. They are very low in efficiency compared with large-scale socialized production which has come about naturally in the course of the development of the commodity economy. It has been borne out by facts that this is not the right way. In order to speed up the process of development from small production to large-scale socialized production, we should adhere to the objective laws of social and economic development and vigorously develop the socialist commodity economy.

On this question the book revealed an inadequacy of understanding. While acknowledging the exchanges between the two systems of public ownership, between collective enterprises, between state-run enterprises and the consumers, and among the state-run enterprises themselves as commodity exchange, the book

did not analyze these in any detail. In the past, the management structure which featured centralization, division between departments and regions, and unified purchases and allocation had restricted the development of the commodity economy, harmed socialized large-scale production which should see a profusion of lateral economic ties, and consequently hampered the growth of the productive forces. Too little was said about the large-scale development of the commodity economy, and the notion of the dying out of commodity and money was brought up prematurely. Commodity and money will phase out in the advanced stage of communism, which will probably take several centuries to come about. At present and for a long time to come what China needs is the large-scale development of the commodity economy.

Since the 3d Plenary Session of the 11th CPC Central Committee, we have been carrying out a structural reform aimed at developing the socialist commodity economy. The rural areas are already developing in the direction of specialization and commercialization, and in the cities enterprises are gradually becoming relatively independent operators of commodity production that can act on their own. The important issue at present is the establishment and perfection of a socialist market system. The ossified economic structure which had been with us for more than 20 years had undermined the domestic market. The consumer goods market was in a crippled state. Retailing was turned into the allocation of products by administrative means, and the practice of having prices fixed by the state had rendered the market mechanism useless. The labor services market appeared to be sagging because the service trades were neglected. Basically speaking the means of production did not enter the market because they were not considered commodities and were subject to unified allocation by the state. As a result, many types of the means of production fell short of demand while horrifying waste due to serious overstocking was reported. The market for funds and technology had long since been done away with. Although the commodity and services have been restored and enlarged in recent years, they are still far from perfect. In order to develop the socialist commodity economy, we must strengthen the socialist market system. This is an important component of the structural reform for the Seventh 5-Year Plan. We must continue to reduce the variety and number of goods under unified state distribution, particularly the unified state distribution of the means of production, establish new forms for the exchange of commodities, continue to develop the consumer goods market and devote major efforts to developing the market for means of production while striving to develop the service trades and strengthen the labor market. At the same time, we must open up and improve the socialist market for funds and technology and make the socialist market a sound market system.

In order to develop the socialist market and strengthen the market mechanism, we must reform the pricing system and the system of price control. Price regulates the production and circulation of commodities. If price does not reflect value and the relation between supply and demand, commodity production and market exchange will not be abnormal. In the past, most of the important products were subject to unified pricing by state commodity prices departments. This kind of price control system did not tally with the characteristics of the commodity economy. There are hundreds of thousands of commodities of a myriad varieties and specifications in society. Their relative cost constantly

changes, and so does the relation between supply and demand. Price ratios must be readjusted from time to time. It is just not feasible for the price control departments to monopolize everything and correctly fix the prices. As a result of our perseverance in this kind of price control system, the price of many commodities became more and more irrational. Since the 3d Plenary Session of the 11th CPC Central Committee, we have been carrying out major readjustments in the light of the very irrational price ratios. However, merely relying on the state to carry out readjustment from the top down was no way to rationalize the relations between prices. We had step by step to relax the control over pricing, allow the law of value to spontaneously regulate the price of most commodities, and change the ossified price control system. In recent years, we have gradually relaxed control over the pricing of some commodities while carrying out price readjustment. At the beginning, we combined readjustment with relaxed control, with the emphasis on the former. Today, price control over most consumer goods has been lifted. With the means of production, however, we still must adhere to the practice of combining readjustment with relaxed control, with the emphasis on readjustment. Due to excessive investment and strained supplies. This has produced a vast gap between planned price and negotiated price. In the future, after the scale of capital construction has been brought under control and an equilibrium has been achieved between the supply of and demand for the means of production, we may continue to extend the scope of relaxed control and bring the two kinds of prices closer. The direction of this approach of ours in reforming the price control system is correct. The overall effect is good. In the end, we will have a price control system under which the state sets the prices of a few vital commodities and labor services, while leaving the rest to market regulation under state guidance.

On the question of the law of value and policy of pricing, a shortcoming of this book is that it puts too much emphasis on the need to consciously make use of the law of value and overlooks the need to make full use of the spontaneous regulatory role of the law of value. The book stresses in many places that planned price must reflect value and the relation between supply and demand, but says nothing about letting the market spontaneously regulate the price of most commodities.

3. On the New Tasks of Planned Management

Developing the socialist commodity economy does not mean doing away with the planned management of the national economy. It only means that the system of planned management should be suited to the needs of the development of the commodity economy. From the practice of economic restructuring over the past few years, we have come to understand further that while relaxing control over the microeconomy, we must make corresponding improvements in the work of planned management and strengthen macroeconomic control. If the reform of the system of planned management cannot keep pace with needs, we are going to encounter difficulties in economic development and the structural reform.

After carrying out economic structural reform and giving the local authorities and enterprises greater decision-making power these past few years, total demand exceeded total supply each year owing to the frailty of the macroeconomic control mechanism and the precipitous rise in investment in fixed

assets and in consumption funds. In 1984 and 1985, investment in fixed assets of state enterprises increased by 21.8 percent and 39.3 percent respectively over the preceding year, while total wages for the staff members and workers went up by 19 percent and 21 percent, respectively. In the last quarter of 1984, in particular, when efforts were made to carry the reform a step further, the increase in total credits and consumption funds got out of control due to our lack of experience. During this quarter, twice as much bonus was issued to the staff members and workers than in the corresponding period of the previous year, thus increasing total wages by more than 30 percent. Total credit also shot up by 164 percent compared with the same period of the preceding year. Runaway credit brought about a rapid expansion in the scale of investment. Owing to the excessive growth of total demand, we saw in 1985 a "super high speed" growth in industrial production, with the rate of growth reaching 23 percent in the first half of the year. This kind of speed was obviously abnormal. It was to a large extent backed by the massive import of raw and semi-processed materials and spare parts and accessories. It could last. Destabilizing factors appeared in our economic life. There was also too big a rise in commodity prices. In view of such circumstances, we took measures in 1985 to strengthen macroeconomic control. In particular, we imposed strict restrictions on total credit and checked the scale of capital construction. In the second half of that year, the excessive speed was gradually slowed down. It dropped to 17 percent in the third quarter, and to 10 percent in the last quarter. However, owing to the fact that many of the capital construction projects were already underway and completed one by one, the supply of raw and semi-processed materials, power and energy became all the more strained. Meanwhile, because most of the credit funds within the quota were spent on investment, enterprises had limited circulating funds and encountered difficulties in industrial production. In the first quarter of 1986 industrial growth over the same period of the previous year fell to 4.2 percent. The second quarter registered a growth of 5.3 percent. Growth may pick up a bit in the second half of the year. Under such unstable economic conditions, we can only concentrate on consolidating, assimilating and improving existing measures in the reform of the economic structure in 1986.

It has been borne out by practice that in the course of reforming the economic structure, it is necessary to further invigorate the microeconomy while strengthening macroeconomic control. While putting the emphasis on invigorating enterprises, efforts must be made to strengthen and improve the planned management of the macroeconomy. The primary objective of planned management should be to ensure the balance between total demand and supply. The key to this lies in bringing investment in fixed assets into line with the volume of means of production available, and bringing the increase in wages for the staff members and workers into line with the volume of consumer goods available. The first important point is that we must guard against excessive growth in investment in fixed assets. The second important point is that we must promptly readjust the relations between various economic sectors and trades and guide enterprises of all trades to develop rationally in accordance with social needs and to maintain good harmony among themselves. Only when the above requirements are met can we ensure the steady and continuous growth of the national economy and create a good economic environment for carrying out reform.

In Western countries, the assets of enterprises are the private property of the investment policymakers, that is, the capitalists, who are very careful about making investment. Owing to the fact that surplus production frequently takes places under the capitalist system, the capitalists have to exercise even greater caution when investing their resources. Thus, a downturn in investment often appears, and it is a common practice of many governments to stimulate investment by financial deficits and inflation. The situation is quite the other way round in the socialist countries. The funds of state-owned enterprises are the public property of the state. Should an enterprise fail, the investment policymakers do not have to bear any economic responsibilities. At worst they will only lose their leadership posts. The economic loss will still be borne by the state. Thus, different departments, localities and enterprises often vie with one another for projects, investment and bank loans. There is a tendency of overinvestment. This is even more prone to happen when, during the structural reform, power is delegated to the lower levels and macroeconomic control is not sound. Thus, in a socialist country, the key task of macroeconomic control is not so much to prevent the sagging of investment as to prevent overinvestment. On the one hand, we must explore the way to establish a responsibility system for investment under conditions of public ownership; on the other hand, we must strengthen the measures of macroeconomic control and regulation. In China, major construction projects that have a decisive role to play in the development of the national economy are funded by the central authorities not financed jointly by the central and the local authorities. They come under the state plans of the central and local authorities and, to them, planning and revenue remain the major means of macroeconomic control. In recent years, however, financial appropriations for most capital construction projects have been replaced by bank loans. More and more localities and enterprises are turning to bank loans as a source of investment. The role played by the bank in controlling the macroeconomy is exceeding that of the financial departments day by day. To strengthen macroeconomic control, we will need more than financial means. It is more important that we rely on the bank. In the capitalist countries, most banks are privately run. Nevertheless, the state, which controls the central bank, still plays a major role in regulating the economy through a number of measures, such as controlling the issuance of bank notes, readjusting the interest rates and readjusting the reserve. In our country, we not only have the People's Bank of China, which functions as the central bank, but the few other specialized banks are also state-owned. If we can make good use of this ingenious machine, it can definitely play a significant role. The question is how we go about making our banks proficient in their business so that they can promote the development while recognizing the risks of investment and granting loans. At the same time, we must greatly improve the status and enhance the role of the People's Bank of China as the central bank, conscientiously control the issuance of money in accordance with state plans, and guard against the unchecked growth of credit. These are the pressing tasks that we must now tackle.

Under the capitalist system, the capitalists and their agents always try to limit the wages for the staff members and workers in their pursuit of profits. This gives rise to the contradiction between the expansion of production and the relative inadequacy of demand backed by the ability to pay. In China,

the wages for the staff members and workers of publicly-owned enterprises are not restricted by the value of labor or by supply and demand. With enterprises being given greater decision-making power, the tendency of managers and staff members and workers working together for short-term benefits is prone to appear. If there is no macroeconomic control, the growth of funds for wages will overtake the growth of labor productivity. This will lead to shortages in the supply of consumer goods and push commodity prices up. The loss of control over the issuance of wages and bonuses to the staff members and workers in the last quarter of 1984 was an important cause of the more substantial price hikes for retail goods in 1985. Thus, it is also necessary for a socialist country to strengthen macroeconomic control over the increase of wages for the staff members and workers in order to ensure that the growth in wages is commensurate with the quantity of consumer goods available. On the one hand, we must strive to increase supplies by boosting the production of marketable goods. On the other hand, we must guard against the growth of wages over and beyond that of labor productivity. At present, we must study and formulate as quickly as possible a wage system that conforms with China's conditions in order to provide the institutional guarantee that the interests of the staff members and workers, the enterprises and the state can be correctly handled. At the same time, we must make better use of the tax lever as a means of regulation. The tax lever can play a major role in regulating the growth of wages and the rational distribution of income. Taxation played an important part in checking the undesirable growth of wages and bonuses in 1985. We should learn to make more effective use of this lever in the days to come.

We are still at a stage where the new and old organizational structures alternate and are locked in a stalemate. The new structure has not yet gained the upper hand. In order to maintain macroeconomic balance, we still have to rely rather heavily on administrative means in carrying out direct control. However, this does not mean a return to the old system and method of planned management. This is only a measure aimed at providing the conditions for further reform. The task before us is to establish and improve methods for macroeconomic control and institute as far as possible a system of planned management that can meet the needs of the development of the commodity economy while invigorating the microeconomy. This is the current new task for planned management.

The establishment of a new system of planned management that suits the commodity economy involves two key tasks: First, we must make good use of the economic levers and effect the shift from direct to indirect control. Second, we must maintain better coordination between lateral economic ties.

Our former system of planned management sought to achieve the goals of macroeconomic control by issuing mandatory plans and exercising direct control over microeconomic activities by administrative means. As a result, our enterprises could not operate independently as commodity producers and lacked vitality. In order to meet the needs of the development of the commodity economy, we must minimize the scope of mandatory planning and invigorate the enterprises. After the scope of mandatory planning has been slashed, planned management will have to be carried out by relying on economic levers, economic methods, and other

indirect means of control. The revised edition of this book looked into this question of making full use of the economic levers in carrying out planned management. But at that time the position of mandatory planning was still under debate and this author was still studying the issue. That was why the question of the shift from direct to indirect control was not brought forward in clear and definite terms. After several years of study, a positive conclusion can be reached in respect of this question. Of course this shift will not be an easy one. It calls for the reform of the pricing, credit, taxation and other systems, the strengthening of the role of various economic levers and the mastery of the art of applying these economic levers. We have a lot to do in this regard during the Seventh 5-Year Plan and must strive to produce results as quickly as possible.

In the past, we carried out planned management in accordance with administrative systems and zoning. The central departments managed enterprises under their jurisdiction on the basis of trades, while the local governments managed enterprises under their jurisdiction on the basis of zoning. More often than not these departments and local governments took as their primary concern the actual management of enterprises under their jurisdiction, going as far as to manage their manpower, financial and material resources and their supply, production and marketing when they should really be making overall planning and strategic arrangements for their respective trade and region. This kind of planned management by departments and regions often cut off rational lateral ties between departments and between regions, and was in conflict with the development of the commodity economy. The development of the commodity economy, particularly the development of large-scale socialized production, necessarily involves the formation of inter-connected economic zones which center on the large, medium-sized and small cities and extend to the rural areas and which embody vertical and lateral ties, mainly the latter, and calls for the full development of open lateral associations. The characteristics of the system of management by departments are closed and vertical ties which hamper the development of lateral ties. The system of management by regions also restricts lateral associations between regions. Both need to be reformed. Governments at all levels must relax their direct administrative intervention in the day-to-day running of enterprises under their jurisdiction. They should guide the activities of these enterprises by means of guidance planning and economic levers and allow them to develop lateral ties of their own accord. The primary concern of the planning and competent departments should be shifted from actual management of enterprises to the coordination of moves within the whole trade and between different regions. They should devote major efforts to developing division of labor and coordination, commodity and technological exchanges, the pooling of funds, and so on, among themselves. Lateral economic coordination has made some progress in recent years. For example, attempts are being made to establish a greater Shanghai economic zone, a southwestern economic zone with Chongqing at the center, and a number of multi-level economic coordination zones of varying sizes. Coordination between the coastal areas and the hinterland is also being developed. Quite a number of big coastal cities are now investing in or obtaining raw and semi-processed materials from the hinterland, and are backing the development of the backward areas with their advanced technology. Planning departments should stand in the fore of the reform and strive to promote the development of lateral coordination. Through promoting and guiding economic coordination, they should be able to strengthen the planned management of lateral associations. We are still very inexperienced in this regard and must make further explorations in the course of practice.

Lastly, because the book was revised in January 1983, the emphasis of Chapter 9, which discussed the modernization of the national economy and the strategic objective of quadrupling production, was placed on an analysis of whether or not this goal could be attained. At that time, large quantities of grain were imported for 3 years running in order to provide support to the readjustment of the agricultural sector and improve the diet of the peasants. In the meantime, when further readjustment was made in the national economy in 1981, the total value of industrial and agricultural production only increased by 4.6 percent and the estimate for 1982 was just a little over 7 percent (subsequently the verified statistical figure was registered at 8.8 percent). Thus, some comrades did not have much confidence in the strategic objective put forward at the 12th CPC National Congress. The chapter laid particular emphasis on boosting confidence. During the 3 years between 1983 and 1985, however, the situation has undergone major changes. The development of agriculture was particularly swift. The total value of agricultural production (excluding rural industries) increased by 7.9 percent in 1983 and by 9.9 percent in 1984. Despite serious calamities, it still went up by 3 percent in 1985. During the Sixth 5-Year Plan, China's total agricultural output value has increased at an average annual growth rate of 8.1 percent. We have become more than self-sufficient in our production of grain and cotton. The total value of industrial and agricultural production has been on the rise, going up from 10.2 percent in 1983 to 11.5 percent in 1984. "Super high-speed" growth was seen in industrial production in 1985. That year the total value of industrial production rose by 18 percent. If the output value of rural industries were to be included. The growth rate was as high as 21.4 percent. The total value of industrial and agricultural production thus showed an increase of 16.4 percent. Now what worries us is not being unable to attain the desired rate of growth, but the possibility that continued "super high-speed" growth in industrial production might upset the balance of the national economy. Over the past year, we have adopted the method of "slowly applying the brake" to check the scale of capital construction and suitably reduce the speed of industrial development. Some results have been achieved. However, the aftermath of "super high-speed" growth has not been completely eliminated. This year, we must continue to strengthen macroeconomic control and restore the balance between total supply and demand. If we can do this, the national economy will definitely continue to develop steadily and unevenly. We will not only have a relatively high rate of growth but will see good economic results. The achievements of our socialist modernization will surely grow with each passing day.

It is my hope that the Japanese version of the revised edition will give our international friends a better understanding of China's economic construction and reform.

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NATIONAL AFFAIRS, POLICY

TURNING SPECIALIZED BANKS INTO ENTERPRISES

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[Article by Guo Shikun (6753 0013 0981): "The Enterprisization of Specialized Banks--the Meaning, Difficulties and Ways To Materialize It"]

[Text] Reform of the economic structure demands that corresponding reform should be made in the financial control structure, and the turning of the specialized banks into enterprises is a problem that cannot be avoided in financial control structure reform.

The Key Problem in Financial Structure Reform Is To Turn the Specialized Banks Into Enterprises

The objects of our country's economic structure reform are the vigorous development of the commodity economy, and the establishment of a socialist economic structure which is full of life and vitality. The central link of the reform is to strengthen the enterprises' vitality and bestow on them the status of really independent commodity producers. In recent years, conforming with economic structure reform, certain reforms have been made in our financial control structure, such as enforcing differential and floating interest rates, reform of the credit and loan funds management system, expanding loans and the scope of granting loans, and so on. But up to now there has been no basic change in the former financial control form. In accordance with the fixed target in the entire structure reform, turning the specialized banks into enterprises has become the key problem in financial control system reform.

1. Turning the specialized banks into enterprises is first of all an innate demand in the development of a commodity and money economy.

A bank is an institution for operating money-capital funds, taking charge of the functions of payments, settlements, deposits, granting loans, and exchange business. The growth and development of banks facilitates development of the commodity and money economy, but the growth and development of banks may be said to have been wholly determined by further development of the commodity economy and the division of work in society. Under the relationships of a commodity economy, enterprises can only start from their own economic interests and

consider whether or not to secure loans from the bank while the banks can also only start from their own interests and consider whether or not to grant loans to enterprises. The business relations which grow between banks and enterprises belong to the category of commodity economic relations in a status of equality. If both sides wish to obtain more profits, they must make policy decisions on the utmost benefits to themselves, adopt various measures to strengthen information work, reduce expense disbursements, tap the funds' potential, and improve operation and management. Concurrently with the banks and enterprises seeking the largest economic benefits, the entire benefits derived from the employment of funds will be increased. Hence, banks naturally should rate with commerce, communications, and so forth, as independent commodity operators, possessing, like industrial and commercial enterprises, the same enterprise characteristics. Because banks are enterprises handling money, with money being a special commodity, Marx gave banks the appellation of "special enterprises."

2. Turning the specialized banks into enterprises is the predetermined condition for establishing a central bank and putting its functions into full play.

Beginning in 1984, according to State Council regulations, our country has enforced the system of having the central bank take charge of financial management and control. The People's Bank has been carrying out the functions of a central bank, controlling and organizing financial activities in the whole country; formulating financial guidelines, policies and statutes; handling the task of issuing banknotes; enforcing policies on money, credits and loans; regulating the volume of circulation money in the market, and so forth. It has assumed the role of the country's bank of banks, acts as the issuing bank, and represents the state in managing the whole country's finance. Specialized banks take charge of payments, settlements and credit and loan businesses, in a certain department or region, being banks specifically engaged in the banking and financial business. The establishment of the central bank system has separated the functions of the macroeconomic and microeconomic layers, pushed reform of our financial control structure a large step forward, and laid the foundations for changeover in macroeconomic regulation and control measures in finance.

However, the formation and existence of a financial structure pattern with the separate establishment and co-existence of the central bank and the specialized banks, must be subjected to the precondition of turning the specialized banks into enterprises. The purpose of establishing the central bank is to reform the banking control structure in which the functions of government and enterprises are not separated. Both macroeconomic control and microeconomic operations are incorporated into a single body and the situation is that those who form the policies are those who execute them. Regarding the targets to be attained, the principles to be observed and the tactics to be employed in achieving the targets, macroeconomic control and microeconomic operations differ from each other, and are even in conflict with each other. Any economic organization can have only one objective. Speaking from the management science and control theory angle, it is necessary to clearly mark the demarcation line between the manager and the managed, and the controller and the controlled. In actual economic life, the specialized banks face the economy of entire society and the

various kinds of pressure for funds in the enterprises' reproduction processes. They must give priority consideration to ways and means of opening up their business channels, and raise more funds to meet the demand generated by the growth in the economy. The functions and tasks of specialized banks can only be confined to increasing the supply of funds and cannot, should not, take up the extra functions and tasks of coordinating and stabilizing economy development, and/or stabilizing and controlling credits, loans and investments. This macroeconomic regulation and control target should be fulfilled by the central bank. Hence, turning specialized banks into enterprises is the only road.

Another objective in establishing the central bank system is to suit track-changing demands in our entire economic structure, and the changeover in finance from direct to indirect control. Effecting indirect control in finance means replacing the direct administrative control forms of credit and loan plans, interest rates, and so forth, by fixing statutory rates for reserve funds and re-discounts, instituting open markets and so forth. However, the change in the form of macroeconomic regulation and control, and the extent of the role of indirect regulation and control tactics, and a direct restriction of the status of the microeconomic foundation. If basic-level specialized bank branches only have the joy of expanding investments and loans business, without being concerned with the loans not being repaid on expiry or even not repaid at all, with all losses taken over by the state or being offset, or written off, or exempted, then they will try every means to seek loan targets and base figures to grant more loans, and bring pressure to bear on the higher levels of the bank. For their part, the latter are always prepared to satisfy basic-level branches demands, since the development and expansion of basic-level branch business is ipso facto the business development and expansion of the specialized banks themselves. Under such a mechanism the various specialized banks are imbued with a strong motive to expand credits and loans, and the macroeconomic control is always in a stringent state, the principals not only not daring to ease off a bit but always fearing the danger of losing control. The result of such concern is the continuous strengthening of direct control tactics. In a word: Not to enforce turning the specialized banks into enterprises will mean financial regulation and control measures will lack the basis and conditions for their functions. To materialize the transition from direct to indirect financial control, turning specialized banks into enterprises is a pre-determined condition.

3. Economic structure reform demands invigoration of finance but the crucial point in invigorating finance is turning the specialized banks into enterprises.

The greater the development of the commodity economy, the higher the degree of monetarization and creditization. The degree of the latter aspects of our country's autonomy has also been continuously rising. A considerable amount of national economy funds has entered onto the credit economy track. In recent years, loans for circulating funds granted by the banks have accounted for over 40 percent of the sources of enterprises' fixed asset investment funds. The distribution of bank loans and the distribution of the gross volume of enterprises' investments have also been closely related to each other. This

illustrates that bank loans have become the main supporting force of enterprises' production development and fixed asset investment. It also shows that the volume and direction of bank loans have effectively influenced the investment direction of enterprises' funds and also the development capacity of different lines of enterprises. Bank loans have also become the major intervening and restricting factors in developing the enterprises' production and making fixed assets investments. Enterprise production development cannot be separated from the banks, and development of the entire economy has become intimately related to the banks' role. Hence, at the present stage of reality, how to invigorate the economy is the problem of how to invigorate finance, and the crucial point in invigorating finance lies in turning the specialized banks into enterprises. Only by making the specialized banks enterprises can they form and set up an internal stimulant mechanism causing them to make profits if their investments succeed, but to incur losses if the investments fail. In other words, making them solely responsible for the outcome. Thus, the specialized banks will be forced to earnestly examine loan projects, invigorate the bank's various businesses, and enhance the benefits from fund operations.

4. Economic structure reform weakens the traditional mechanism of fund centralization, but the budding and growth of a new mechanism for fund centralization still demands, first of all, turning the specialized banks into enterprises.

Economic structure reform, particularly enforcement of the measures for "eating from separate pots" in finance, and the two-step "taxes in lieu of profits," have caused great changes in the funds pattern in our country's economy. The ratio of funds inside the budget to the aggregate of funds, has been continuously shrinking, but extra-budget funds have expanded rapidly. In the last 2 years, the gross volume of extra-budget funds has amounted to over 80 percent of the total volume of funds inside the budget. Relevant investigation data has shown: Distribution of enterprise profit-retentions has been fairly scattered and equalized which makes enterprises rely heavily on external funds for their investments. It has become difficult for unitary enterprises, because of the small size of their self-owned funds, to singly and independently make relatively large-scale investments. Hence, breaking through the barrier which stops enterprises from developing due to their insufficiency of funds, and nurturing and setting up a new mechanism for centralizing funds to replace the daily weakening functions of financial centralization for distribution of investments, have become the key points in the merging and pooling of extra-budget funds; in raising the quality of economic development; and in protecting and developing the fruits of reform in recent years. Failing that, it will be difficult to push the reform further. The logical starting point for the new funds-centralization mechanism can only be: Setting up and forming a capital market, organizing financial syndicates, and invigorating the lateral merging of funds, so that the funds can reach across departments on a large scale and be rapidly pooled, thereby enlarging the benefits from the size of the investment. In forming such a mechanism for pooling funds, aside from developing commercial credit, opening up civilian financial markets, and so forth, the specialized banks must become the leading force. For the specialized banks to become the leading force in the

capital market, and display the functions of organizing the capital markets so that the combination of large-scale financial syndicated and capital pooling possess an innate crystalizing force, the first and pre-determined condition must be to turn the specialized banks into enterprises.

Current Difficulties and Impediments to Turning Specialized Banks Into Enterprises

Turning specialized banks into enterprises has been an irrefutable direction and at the same time has embodied an extremely urgent character. However, in the transformation and changes to the economic and financial structures, turning specialized banks into enterprises provides sharp and complex contradictions against the former economic structure, mode of management, method of thinking, and so forth, and it cannot be accomplished at one stroke. In particular, under the conditions that in transforming the structures the former mechanism still continues to display its role within a definite scope and to a definite degree, and that macroeconomic control in finance cannot be loosened in the slightest, turning specialized banks into enterprises necessarily faces extremely rigid difficulties and impediments.

1. The main impeding factors are that the banks continue to perform the government's functions of managing and regulating the economy, and that government directly controls and handles specialized banks' policies.

In our country, all banks are owned by the state and by far the greatest majority of enterprises are owned by the state or the collective. Because of this, banks must bear the responsibilities of promoting enterprises to develop production, expand purchases and marketing, and improve operation and management and, through the banking business, represent the state in taking up the tasks of managing, supervising and regulating the macroeconomy and promoting the smooth development of the national economy. Especially in the case of construction banks these functions and tasks are all the more outstanding. Under such functions and tasks, between the banks and the enterprises, the supplier of the credit and the recipient of the credit cannot form commodity economic relations which are truly equal, self-interested and voluntary. Only a fallacious form of loan-making is maintained whereas the true nature is like that of "making a gift" and "receiving a gift," and of effecting control and being controlled. Thus, specialized banks cannot decide on business activities in conformity with their own economic interests and can only take the overall demands of national economic development as the starting point for their own business activities and rigidly and thoroughly carry out the various state policies. The government, by right, naturally uses the banks as important tools in managing and regulating the national economy, and directly intervenes in, and controls, the banks' decision making, telling the banks what to do, what not to do, and how to do it. The banks become a part of the machine of state. This type of direct intervention and control is exercised not only by the government's top level but also by governments at various levels, including the lowest level. For example, in the case of construction banks, the loan projects for fixed assets have been directly arranged and decided upon in the state plan and the construction bank merely "grants the loan by order." Although local governments at various levels may not directly decide on the banks granting loans, they may organize the banks

to attend meetings and the meetings may not be adjourned until and unless the banks have agreed to dish out the money! Hence, in the case of the specialized banks still continuing to bear the government functions of managing and regulating the economy, and the government still enforcing direct administrative control over the specialized banks, the banks themselves cannot of their own accord, decide on the granting of loans, and to turn them into enterprises will be difficult to truly realize.

2. That the central bank exercises direct control over specialized banks' credit and loan plans and credit and debit balances and a powerful departmental vertical leadership over the specialized banks constitutes another major factor impeding the turning [of] the latter into enterprises.

Since the last quarter of 1984, because of our country's loss of control over credit and loans and over the issuing of banknotes, the central bank, regarding the control structure of the credit and loan funds, has experimentally carried out the "three-in-one" combined control method of "unified planning, demarcation of funds, and merging of actual debits and credit." That is, enforcing the three-fold method of controlling the balances of debits and credits, controlling the scale of loans and controlling the special targets of certain loans. This method of control has performed an active role in eliminating the practice by the specialized banks "eating from the same big pot" at the expense of the central bank in the derivation of credit and loan funds, and also in controlling the scale of loans and the volume of money supply. Nevertheless, this type of control still belongs to the realm of direct administrative control. When granting loans, the specialized banks must have the "money" (balance between credits and debits) and must have the "grain tickets" (meaning the loan targets). Not only does this control strangle the specialized banks, the basic-level banks in particular, but also the amount of funds needed by specialized banks each year is determined beforehand and not by their own business activities. Those who have performed well cannot enlarge their business or grant more loans, while those who have not performed well cannot reduce their business or grant fewer loans. Lacking the internal mobile force and external pressure, the specialized banks have no facility to carry out management and control as enterprises.

Due to historical factors and under the conditions of still principally adhering to this method of direct administrative control, the various specialized banks can only enforce a departmental vertical leadership and control, and carry out multi-layer administrative management. This is because the central bank must be responsible for macroeconomic financial management, particularly compilation of credit and loan plans and appraisal of balances between credits and debits, and cannot directly confront the tens of thousands of basic-level branch banks to effect systematic management and leadership. Especially under the conditions of gross demand exceeding gross supply when the money market is tight and control of the scale of credits and loans sorely needed, not only can it not weaken the departmental vertical control of the specialized banks, it must strengthen it.

However, with the specialized banks forming a structure of their own and enforcing planned control level by level, a unitary vertical control of funds not only places the lower-level branch banks in a passive position having to abide by orders from the higher levels, but also severs the demand of the commodity economy for a lateral merging of funds, thus forming a departmental barrier against the movement of funds and augmenting the system of ownership by the departments. This gives the turning of the specialized banks into enterprises another round of difficulties.

3. The policy of direct interest rate control cannot form the competitive market mechanism needed to turn specialized banks into enterprises.

In recent years, reform has been made in varying degrees to bank deposits and loans interest rates in our country. But, generally speaking, they appertain to the direct interest rate control type. This is principally shown on two sides, namely, 1) A policy of low and preferential interest rates; and 2) a policy of fixed and unchanged interest rates. Low and preferential interest rates on loans were not formed by the specialized banks of their own accord in accordance with the principles of supply and demand relations of funds and of interest rates readjustments. Rather, they were fixed in accordance with the demands of the balanced development of the national economy to render a manifestation of support to industries and trades, products, or economically backward regions which enjoy preferential treatment but urgently require development. Supporting development of the economy frequently comes into conflict with enterprises having profit-making as their objective. For the specialized banks to follow this policy of support naturally results in the diminution of profit earnings. The more active support given, the greater the profit diminution. According to statistics, in the past two years there have been 40 categories of loan projects calling for low and preferential interest rates, accounting for roughly 90 per cent of the whole range of categories of loan interest rates. Among the loan projects given low and preferential interest rates, quite a large portion are charged with interest rates lower than those of bank deposits. The policy of interest rate control has caused interest rates on certain loans to remain unchanged for prolonged periods, regardless of whether funds supply and demand is easy or tight, or the actual condition of circulation money, or the state of commodity prices and the cost of production on the part of the banks. Some interest rates on loans have always been the same without differentiation between good or poor performance by the enterprise, or the long or short duration of the loans regardless of differences in the types of business, the form of operation, and the profit rate of enterprises within the same industry or trade. Moreover, each and every interest rate, including rural credit cooperatives, has been concretely fixed by the People's Bank to be followed by the lower levels. The specialized banks have no way of following supply and demand conditions for funds and the strength and reputation of the banks themselves does not allow them to promptly raise or lower the interest rates thereby expanding or reducing their credit and loan facilities and obtaining maximum economic benefits. This not only damages the regulating and balancing functions of interest rates but also, in reality, restricts the development and expansion of well-run banks and helps poorly-run banks to continue their credit and loan activities which yield low benefits. It cannot create an environment of fair competition between the specialized banks and also deprives the banks of the motive power and initiative in operation and management which they must possess to be enterprises.

Although the state does enforce floating interest rates, that is, giving preferential treatment in the form of downward floating rates to enterprises which are well-managed; run at a low production cost and manifest quick funds turnover and, with regard to enterprises which are poorly run or managed, whose funds turnover is slow and which cannot promptly repay their loans, they are given upward floating interest rates or charged with penalty interest rates. This manifests the policy of encouraging enterprises to improve their operation and management and to speed up the funds turnover. Yet, speaking from the standpoint of the innate profit making motive in turning the specialization banks into enterprises, the logical conclusion is: The banks earnestly hope that all enterprises cannot repay their loans promptly and do not want to improve their operation and management, in order that they may collect higher and more interest. Obviously, this goes against the current motive and intention in enforcing floating interest rates.

4. The irrationality of our country's price structure determines that the interest rate structure cannot be rational.

One of the important conditions as to whether or not the specialized banks can succeed as enterprises is whether or not it is possible to enforce a national interest rate system. In this connection, it is important if market interest rates can be enforced. Interest rate is the price of deposits or loans and interest rate reform is a part of price reform and is naturally hindered by price reform. Since controlled prices cause enterprises to be unable to obtain equal or corresponding profits in return for an equal amount of labor outlay, controlled interest rates can only be charged on loans given to enterprises so as to allow their continued existence and development. In addition, twisted prices make certain enterprises suffer from diminished profits or even losses. In order that there can be principal repayment and interest payment on loans, the state has specified that the principal and interest of loans can be paid from before-tax profits and charged to the cost of production. This in reality is a method whereby the financial department pays loan principal and interest for the enterprises concerned, so that they will not react sensitively to high or low interest rates. Interest is a part of an enterprise's profits. In the final analysis in reform of the interest rate, the problem of charging interest payments to the cost of production and from before-tax profit earnings must be resolved so that interest payments will be offset from the enterprise's profits. But this can only materialize when the enterprise can, in general, obtain a corresponding amount of profits from an equal amount of labor outlay. That is, under the conditions of rational prices.

5. If industrial and commercial enterprises still find themselves under conditions of softening budget restrictions, it is not possible to have hardened restrictions on banks' credits and loans and, naturally, the specialized banks cannot become thoroughgoing enterprises.

The distribution system reform in our country strengthens the profit motive in enterprises' operations, but there has been no change yet in soft budget restrictions imposed on enterprises. So long as soft budget restrictions continue to exist, the specialized banks' credit and loan restrictions cannot be hardened. The banks are the principal suppliers of funds needed by state-run

enterprises. If the banks incur bad debts from loans granted to enterprises, it is difficult to demarcate these losses from losses suffered through bad debts incurred because of poor management or wrong policy decisions. In the end, confusion reigns and one can easily be passed off for the other, with loans ultimately set off or repayment exempted. Nobody will then be responsible and the state is the true loser. Before hardening credit and loan restrictions, it is still necessary to insist on the banks exercising the function of supervising enterprises' financial activities and providing loans to enterprises only in strict accordance with state policy demands. Otherwise control over the enterprises' activities will be severely weakened. Hence, in turning the specialized banks into enterprises, logically the minimum conditions are that enterprises are solely responsible for their own profits or losses and that budget restrictions be hardened.

6. Since the various specialized banks enforce strict division of work in their businesses, this, from another angle, strangles another competitive mechanism needed in turning them into enterprises.

For traditional reasons, and for the sake of maintaining their role in the former structure, our specialized banks have always observed a strict division of work in their businesses. This is the result of the state using administrative means to directly intervene in financial work. This compulsory type of division of work has generated, on the one hand, a situation in which the specialized banks each hold firmly to a definite front and literally limit themselves to a specified area. On the other hand, in order to strictly demarcate their work and avoid wrangling, the specialized banks have continuously strengthened their own departmental administrative control, forbidding the basic level branches from exceeding their limits, thus forming a situation of level-by-level intervention. Furthermore, definite stipulations are made as to what the basic-level branches may and may not do. This not only stifles the vitality of the specialized banks, particularly their basic-level offices, forcing the lower-level offices to take orders from their upper levels on everything, and causing them to lose their ability to meet exigencies in their external environment. Besides, the result of strengthening division of work necessarily leads to a monopoly in the scope of business and operations. In an economic region, there is only one bank and no branch bank at all. This severs the lateral relationship of funds, and not only sorely affects the social effects of the movement of funds, but also renders it impossible to form a competitive mechanism in turning them into enterprises and, naturally, there is little enterprise of which to speak.

Never Missing an Opportunity to Promote Turning Specialized Banks Into Enterprises

Despite the specialized banks facing complex restrictive factors, the development of economic structure reform will weaken these restrictive factors and continuously create new opportunities and conditions. In order not to miss the opportunity to promote turning specialized banks into enterprises, the following measures may be undertaken:

1. Breaking up the fixed division of work in specialized banks.

In recent years, following the development of the commodity economy and the strengthening of lateral economic relations, interlocking business relations among the specialized banks have frequently appeared and have formed an active trend, illustrating that there is no necessity to continue to maintain the original administrative division of work. At the same time, because breaking this system of work division belongs to the realm of banking structure reform and seldom affects the entire economic life, it seldom suffers from the restructions of entire economic structure reform. Because this kind of reform is not of a mechanical nature but is only a policy reform, and the economic foundation for the policy reform has been laid, its effects are relatively unitary and simple, and hence it can be carried out more or less easily. Naturally, breaking up the fixed work division of the specialized banks does not mean that the business cannot have any particular emphasis.

2. Readjusting the banking structure in accordance with the law of movement of funds.

Following the inter-crossing of business in the specialized banks, the limits of work division have become increasingly obscure. The specialized banks have only different operations to emphasize on and there is no strict specialization of which to speak. Thus, strong departmental control over the various specialized banks can become loosened or softened. As for fund management, it is necessary to organize, manage and use funds according to the demarcation of economic zones and the innate demands of economic movements. There is no need to adhere to the method of departmental adjustment and control of funds which in effect violates the law governing the movement of funds. With regard to the source of funds, if they belong to the finance departments and need to be handled by the banks, finance departments can prepare the budget and plans and let the specialized bank's branch at provincial level handle them. For example, the construction bank has over 30 years experience in managing fixed asset investments. In principle, this portion of funds can be designated to it to take charge of and, at the same time, it can collect the necessary service fees. If the funds belong to the central bank, then through abolishing the bank's branch offices at provincial level and sub-offices at city and county levels, and setting up in their places and according to the demarcation of economic zones, the central bank's large regional branch banks, and sub-offices at city centers, the funds can be funnelled by the latter offices to specialized banks' provincial-level branch offices and city or county-level sub-offices, for allocation and investment. The abolition of the central bank's branches at provincial level and sub-offices at city or county levels and replacing them, according to the demarcation of economic zones, with regional branch offices is because the central bank, in its capacity as a managing bank for inspecting and supervising local banks at various levels, should by right be separated from the influences of local governments at various levels so that they are not subjected, or less subjected, to local government intervention and can carry out the central bank's financial guidelines and policies appropriately. This is also in compliance with the objective demands of the economic zones to organize the operation and movement of funds. However, this banking structure reform must

have the preconditions of the steadily weakening direct financial regulation and control measures and gradually displaying the functions of indirect financial regulation and control measures.

3. Carefully and continuously pushing forward interest structure reform and intensifying the interest market mechanism.

Interest and prices both call for a relatively large reform under any circumstances. Interest structure reform implies the gradual loosening of interest rate control so that it has flexibility, and striving to bring about an active trend of converting controlled interest rate to market interest rate. Speaking of the present, in combination with price structure reform we may set up and enforce the following interest rate structures: Taking the central bank's interest rate as the standard interest rate, one category of interest rate which follows the changes in central bank interest rate and changes; one category of interest which takes the central bank interest rate as basis and floats within a fixed range; and one category of interest rate which is wholly the market interest rates. Regarding the regions, industries and trades or enterprises which urgently need development, but which have a low profit earning capacity and cannot survive or develop without the bank's low interest preferential loans, the interest differentials caused to the bank because of granting low-interest bearing loans should be compensated by subsidies from the central bank or the finance departments, so that the bank's interest earnings will not be diminished, and so as to gradually form a situation or mechanism of fair competition in making the banks into enterprises.

4. Abolition of fixed savings deposits of over 3 years duration and increased issuing of bonds and stock certificates.

Fixed savings deposits of over 3 years duration provide extremely stable funds for employment. However, the longer the duration of fixed savings deposits, the higher the interest rates on the deposits, but the interest rates of loans cannot be correspondingly raised and this adversely affects the operational benefits from turning banks into enterprises. The method of resolving this problem is for the banks to abolish fixed savings deposits of over 3 years duration and, at the same time, strive to absorb this source of funds through bonds and share certificate issues.

5. Following the gradual hardening of enterprises' budgets, corresponding hardening of bank credit and loan restrictions.

Hardening of the enterprises' budget restrictions has become a problem that must be urgently solved in economic structure reform. It may be followed up, without losing the opportunity, with corresponding hardening of bank credit and loan restrictions. Under the conditions of increasingly diminishing external intervention, it is necessary to set up a healthy economic responsibility system turning banks into enterprises. The bank's interest and the interest of the broad masses of workers and staff members must be joined together in unison, and through due financial legislation, the enforcement of the various kinds of responsibility system must be protected. At the same time, we may also resort to various means such as closing, liquidating, and merging banks to harden the banks' credit and loan restrictions.

6. Earnestly solving the technical problems of the central bank's control and gradually materializing the transformation of the regulation and control tactics.

Simultaneously with the continuous materialization of the conditions on various sides for turning banks into enterprises, in reality conditions are being created for the central bank to enforce indirect financial regulation and control measures to replace the direct control measures. That the central bank, through controlling the specialized banks' reserve funds, proceeds to indirectly control the scale of credits and loans, and abolishes direct control of credits and loans, seems to be not too difficult a task. However, inappropriateness and indeed errors in handling macroeconomic techniques can in similar manner, impede the realization of the transformation of macroeconomic regulation and control tactics. This requires earnestly studying and handling the problems of logical relations and benefits between the central bank's various methods of indirect control.

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NATIONAL AFFAIRS, POLICY

GUANGMING RIBAO ON ROLE OF BANKRUPTCY SYSTEM

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[Article by Yang Guoliang (7122 0948 0081): "Tentative Ideas on the Role of Implementing the Enterprise Bankruptcy System"]

[Text] The enterprise bankruptcy system is a legal system that deals with enterprises that have incurred deficits for a long time and cannot pay their debts. The practice of economic structural reform has proved that the establishment of the enterprise bankruptcy system is absolutely necessary and extremely urgent. To realize its necessity and urgency, we must have a comprehensive understanding of the role of implementing the enterprise bankruptcy system.

The Basic Role of Implementing the Enterprise Bankruptcy System

The basic role of implementing the enterprise bankruptcy system includes the following: First, when an enterprise cannot repay its debts, the disputes over debts should be handled according to the legal procedure of going bankrupt to repay the debts. Second, an enterprise is naturally eliminated when its status as a legal body is terminated following its bankruptcy and its assets auctioned to repay the debts. The former is called going bankrupt to repay the debts. This is the ultimate purpose of implementing the enterprise bankruptcy system, namely, using legal means to handle the relations between creditor and debtor. The latter is called bankruptcy and elimination. This is the direct result of implementing the enterprise bankruptcy system, namely, eliminating the backward enterprises. These roles are the indispensable, essential links in the mechanism of the operation of a commodity economy. Therefore, implementation of the enterprise bankruptcy system will be of great significance to the deep-going development of the reform of China's economic structure.

First, implementation of the enterprise bankruptcy system plays the role of safeguarding the normal economic contacts between enterprises and protecting the legitimate rights of both creditor and debtor. The arrears of debts between enterprises have become a long-standing question for years. With the deepgoing development of the reform of the economic structure and the increasing economic contacts between enterprises, this question has become prominent. According to statistics, the payment in arrears throughout the country totals

over 30 billion yuan. As some poorly managed enterprises are heavily in debt, the amount of their deficits has already outstripped their assets. However, it is rather difficult for the economic and judicial departments to handle the matter without an enterprise bankruptcy law. Implementation of the enterprise bankruptcy system will change the practices of repudiating debts left over from the old system, smash the "big pot" between enterprises, and maintain the normal order required for the development of a commodity economy.

Second, implementation of the enterprise bankruptcy system plays the role of attaining better social and economic results and speeding up capital turnover. In the past, the state made up losses incurred by state enterprises and the banks granted loans to save them from going bankrupt. The method adopted was to "order them to shut down, suspend production, amalgamate with others, or switch to the manufacture of other products." Nevertheless, there were many defects by merely using this method to deal with enterprises suffering from long-term deficits. On the one hand, the state could not alleviate its burden as a result of undertaking the risks of enterprise operation with finance and credit. Moreover, the large amount of bank credit funds occupied by losing enterprises created difficulties for capital turnover, reduced the use efficiency of funds, and aggravated the contradiction of the short supply of circulating capital. On the other hand, a backward enterprise could only be amalgamated with an advanced enterprise because of its poor management and its failure to "save itself" after "suspending production and being shut down." By doing so, it became a weighty burden for the advanced enterprise. The move, which could wear down the advanced enterprise, was disadvantageous to the attainment of better social and economic results. By implementing the enterprise bankruptcy system, we can appropriately handle the debts of enterprises, alleviate the heavy burden of the state in unceasingly subsidizing the losing enterprises, remove the obstacles to the circulation of bank funds, resolve the contradiction between the supply of and demand for funds, and maintain normal production and circulation. This is extremely important for the attainment of better social and economic results.

Third, implementation of the enterprise bankruptcy system plays the role of eliminating backward enterprises and readjusting the industrial setup. Under the conditions of a commodity economy, the readjustment of the industrial setup is realized under the role of the law of value and through the self-regulation of orientation of enterprise production and elimination and competition between enterprises. Under the traditional economic system, the method of "ordering enterprises to shut down, suspend production, amalgamate with others, or switch to the manufacture of other products" cannot reflect the requirements of the readjustment of the industrial setup, the backward enterprises are not eliminated, and the rational distribution of natural resources cannot be realized. By implementing the enterprise bankruptcy system, we can promptly eliminate the backward enterprises and reorganize the production factors within society. Then, we can rationally distribute the natural resources and promptly readjust the industrial setup.

The Derivative Role of Implementing the Enterprise Bankruptcy System

Besides the basic role, the implementation of the enterprise bankruptcy system also plays a derivative role. It means defining the responsibilities of enterprises and strengthening the mechanism of market competition. This role enables internal responsibility and external pressure to take shape within enterprises. The shaping of such responsibility and pressure is extremely important for the reform of micromechanism of the economic structure.

Implementation of the enterprise bankruptcy system will impel enterprises to show concern for their own interests. This is very important for enhancing self-restraint of enterprises and perfecting the motive structure of enterprises. The essential condition for enhancing self-restraint of enterprises is to recognize that the interests of enterprises are independent of those of the state and workers. Only in this way can a unified and also mutually conditioning motive structure take shape within enterprises. Establishment of the enterprise bankruptcy system actually defines the basic responsibilities of enterprises and urges them to show concern for the gains and losses of their assets. This is very important for the relative independence of enterprises' interests.

Viewed from the property of enterprises, establishment of the enterprise bankruptcy system means that enterprises are independent of their debts and that the state will no longer subsidize the deficits of enterprises. This independence is an important step in separating enterprise property from state treasury property as well as in defining the two in terms of accounts and property relations. By implementing the enterprise bankruptcy system, enterprises should "assume responsibility for their profits" as well as "for their losses." Thus, enterprises can obtain a relatively independent position for their interests and combine their rights with responsibilities and benefits.

Viewed from the relations of interests within enterprises, the enterprise bankruptcy system is a system in which the director and workers jointly undertake responsibility for bankruptcy. Once an enterprise goes bankrupt and is shut down, the director must bear the responsibility and the workers will lose their opportunity of employment. This common responsibility impels the factory director and workers to realize the existence of enterprise interests, understand that safeguarding enterprise interests is tantamount to safeguarding their overall and long-term interests, and recognize the relatively independent significance of enterprise interests to the individual interests of workers.

Establishment of the enterprise bankruptcy system will strengthen the mechanism of market competition, the external environment on which enterprises depend for existence. This is also an important measure for putting an end to the situation of enterprises lacking vitality. The two main factors of enterprise vitality are internal motivity and external pressure. The external pressure comes from the risk of the threat of bankruptcy in the course of competition. The seeking of economic results alone cannot bring about genuine and vigorous vitality. Once an enterprise is at the edge of bankruptcy, the essential question is whether the enterprise can continue to exist rather than how much economic

benefits it can obtain. Only by ensuring the stability of this essential question can we talk about the economic benefits of enterprises, remove the threat to enterprise existence, and ensure the economic benefits of enterprises. Here, enterprises are invigorated by means of the external pressure giving impetus to internal motivity. If we do not recognize bankruptcy and fail to implement the enterprise bankruptcy system, there will be no external pressure and it will be rather difficult to solve the question of invigorating enterprises.

The Impact of Establishing the Enterprise Bankruptcy System on the System of Indirect Control

The basic and derivative roles of the enterprise bankruptcy system are extremely important for the establishment of a new method of macrocontrol. This new method will change the traditional method of exercising control over the process of enterprise behavior, effect a transfer from process control to target control, and pave the way for establishment of a full set of indirect control system. The establishment of this indirect control system is a key link in giving full play to the role of the enterprise bankruptcy system.

First, establishment of the enterprise bankruptcy system is advantageous to the rationalization of enterprise behavior. The enterprise bankruptcy system will impel enterprises to keep their behavior within bounds so as to adapt themselves to the changes in the economic environment and seek long-term development. Only by so doing can enterprises react quickly to economic readjustment. This constitutes an extremely important microscopic basis for the establishment of an indirect control system.

Second, establishment of the enterprise bankruptcy system is advantageous to fostering the new, equal concepts of equal opportunities and giving prominence to efficiency. The traditional concept of equality required equality of results. This was the ideological basis of egalitarianism in the distribution of social wealth. This concept of equality actually consolidated the highly centralized planned management system which gave rise to the system of state monopoly for the distribution of labor characterized by "low wages but a high rate of employment." Viewed economically, this concept of equality was the root of the idea of "vying with each other to see who earns more irrespective of efficiency." Such an idea is still the obstacle to the reform of China's economic structure. The starting point of the enterprise bankruptcy system is to advocate "equal opportunities," encourage improvement of the economic management level, break with the traditional concept of "equality of results," and promote the reform of the labor and employment system. This new concept of equality will be of great significance to the establishment of the new method of macrocontrol.

Third, the enterprise bankruptcy system is the stimulant mechanism of the organs of government power to exercise control over the choice of consequences made by enterprises. The stimulant mechanism refers to the government, which exercises macrocontrol by means of encouragement and punishment to arouse the

economic motive of enterprises so that it corresponds with the requirements of a planned commodity economy. Encouragement refers to positive stimulation enhancement, while punishment refers to negative stimulation enhancement. With the aid of the repeated enhancement means of the stimulant mechanism, we can bring about directional changes in enterprise behavior. Positive enhancement is the means to strengthen certain behavior, while negative enhancement is the means to prevent and correct certain behavior. Thus, negative enhancement can also bring about positive results. The enterprise bankruptcy system is a system that punishes poorly managed enterprises that cannot even pay the debts with their assets. The role of this system is not limited merely to enterprises that cannot pay the debts with their assets. It also urges the advanced enterprises to show concern for the process of enterprise production and operation. Through control over the results, the state, on the one hand, can invigorate enterprises, reduce their deficits, and avoid bankruptcy; and avoid bankruptcy; and on the other hand, enterprises can positively react to the various means of control and regulation. Consequently, the state can effect a change from direct control to indirect control in its management over enterprises.

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[Article by Liu Hongru (0491 7703 0320): "Strengthen the Macroeconomic Regulation and Control by the Central Bank"]

[Text] The development of our country's planned commodity economy poses an important problem, which is that in the reform of the economic structure it is necessary to place the reform of the financial structure in an important position. The economy of our country is currently being transformed into a monetary economy and a credit economy and finance will infiltrate into the various sectors, becoming the link joining together with various socioeconomic activities. Strengthening the vitality of the enterprises requires the employment of financial measures. The enterprises cannot be divorced from finance, while finance cannot be separated from the enterprises. In order to perfect the market structure, it is necessary to duly set up a financial market. If funds cannot flow in a lateral manner, the development of the commodity market will be difficult. In shifting from mainly direct control to mainly indirect control, it is necessary to employ financial measures and depend on the financial system to enforce macroeconomic regulation and control. Hence, the intensified development of the reform of the economic structure requires speeding up the steps in the reform of the financial structure. At present, the major points in the reform of the financial structure are in three inter-related areas: Strengthening the macroeconomic regulation and control by the central bank; systematically opening up the financial market; and developing diversified forms of financial organs and gradually enforcing management of an enterprise nature. The extent of the development of the latter two phases is determined by the capacity of the level of the central bank's macroeconomic regulation and control.

1. The Financial Regulation and Control System Is an Important Constituent Part of the Socialist Macroeconomic Regulation and Control System

A major point in the reform of the economic structure during the Seventh 5-Year Plan is the state's management of enterprises being gradually shifted from mainly direct control to mainly indirect control and the setting up of a new socialist macroeconomic control structure. The special feature of this kind of regulation and control system is its reliance on the employment of various kinds of economic measures and legal measures, supplemented by the

necessary administrative measures, to control and regulate the operation of the economy. Hence, it is necessary to further reform the price control structure, lessen the relative weight of mandatory planning, enlarge the scope of guidance planning and regulation by market mechanism, gradually shift the major points of planning work to mainly employing economic measures and such economic levers as price, taxation, credit and loans, interest rates, exchange rates, and wages, and enter the track of macroeconomic all-round control and regulation. Such macroeconomic regulation and control will, to a relatively large degree, rely for its realization on the financial supervision and control structure. In his "Report on the Seventh Five-Year Plan," Premier Zhao Ziyang clearly pointed out: "It is necessary to strengthen the banks' important function in macroeconomic management, and, by means of the reform of the financial structure, to gradually establish a strong and flexible financial control and regulation structure and bring into full play the role of the financial system in raising and merging funds, guiding the direction of flow of funds, improving efficiency in the use of funds, and generally regulating social demand." This is to say, the financial regulation and control structure is occupying an increasingly important position in the macroeconomic regulation and control system. Why is this so?

First, development of a planned commodity economy signifies the transformation from control in kind to control in value, from mainly depending on distribution in kind for the control of economic operations to mainly depending on money and funds to regulate and control economic operations. In the past, the system of the vertical distribution of resources shaped the system of the vertical distribution of funds, while money followed in the footsteps of goods. Now, the market system is being gradually improved, movement of funds has taken the lead, and goods follow in the footsteps of funds. Under such conditions, it is necessary to resort to the system of financial regulation and control to regulate and control economic operations.

Second, the shift from mainly direct control to mainly indirect control signifies the transformation from dependence on planned targets to control the economy to principally relying on economic policies and economic levers to regulate and control. Among the economic levers, financial levers such as credit and loans, foreign exchange, interest rates, exchange rates, and so forth are the principal ones and are also flexible and effective. The levers of price, taxation, and salaries and wages cannot be employed all the time and they must retain a relatively stable character, while on the financial side, various tactics may be flexibly employed and promptly bring about effects. In the era of the intensive development of the monetary economy and the credit and loan economy, finance infiltrates into each and every sector and is of all-round importance.

Third, in recent years actual practice has testified that under the condition of people "eating from separate pots" in finance, the percentile retention of foreign exchange earnings being carried out at various levels, the enterprises expanding their financial power, and reduced mandatory planning, finance is the most effective lever in macroeconomic control. It can be loosened or tightened, and its regulation and control are flexible. In 1984, macroeconomic

control in the fourth quarter was not forceful enough, but in 1985 macro-economic control achieved notable results. The problem can thus be seen from the positive and negative sides.

The central bank, that is the People's Bank of China, is the main body and axis of the financial supervision and control structure. Last year, the recommendation of the CPC National Congress on the Seventh 5-Year Plan pointed out: The People's Bank of China, in its capacity as the central bank, "must, through synthesizing the credit and loans plan, financial policy, foreign exchange control, and various measures on credit and loans, interest rates, exchange rates, and reserve funds, control the volume of money supply and the gross scale of loans, and achieve the objectives of controlling currency inflation on the one hand and, on the other hand, facilitating the coordinated development of the economy and the rationalization of the economic structure."

II. Reform of the Planned Control System of Credit and Loans: Gradually Establish an Indirect Control Mechanism

1. Selecting the medium-term control targets of both projects.

The ultimate objectives of a monetary policy, including economic growth, stability of commodity prices, a balanced state of international payments, and full employment, must conform with the state's economic and social development strategy. Hence, the central bank must consider how, by means of the monetary policy, to ensure rapid and sustained growth in the supply of commodities and labor services to society and facilitate the simultaneous growth of total demand and total supply. In other words, it must coordinate the balancing of social total supply and total demand as the gross target of the monetary policy.

However, the ultimate objective of the monetary policy is long-term and non-numerical. It is necessary to find a short-term, numerical, and more accurate target as the medium or bridge. For this reason, the central bank must select and set up medium-term target. In the central bank's mechanism for macroeconomic regulation and control, the medium-term target plays the role of linking the upper and lower levels. It is the bridge between the macro-economic ultimate objective and the level of monetary policy, and is also that basic condition for realizing indirect control.

In our country, the necessity for selecting and determining medium-term target is derived from the reform in the transition from mainly direct control to mainly indirect control. Under the conditions of direct control, it is mainly through the planned control of loans that we control the issuance of banknotes and the gross volume of deposits, thereby facilitating the realization of the national economic plan, with everything subject to control by the planned target without the need to study how to select a medium-term. Under the conditions of indirect control, it is through the regulation and control of the financial activities to achieve the purpose of the coordinated development of the national economy and stability of the currency. This necessitates settling the problem of the medium and bridge.

In actual life, the middle-term target is not only the concrete demand for stabilizing the currency and controlling currency inflation, but also the "chest" for controlling the gross volume of loans in promoting economic development.

According to the actual condition in our country, the target of first importance is to control the supply volume of money and to realize the object of controlling social gross demand. What needs to be changed is that the control should not be confined to cash but include the gross volume of money supply, embracing cash and deposits.

Under current conditions, our country still needs to take the scale of credit and loans as a medium-term target. Seen from the international experience, countries enforcing a fixed exchange rate should take the gross volume of domestic loans as the medium-term target. Under the system of a fixed exchange rate, if the central bank adopts a policy of currency inflation, the additional money in circulation does not cause domestic depreciation and does not at once cause external depreciation, but creates a high exchange price. This, on the one hand, is advantageous to imports; on the other hand, under the conditions of currency inflation, it increases the demand for commodities and the additional amount of money in circulation will flow abroad through the expansion of imports. If the central bank adopts a tightened monetary policy the rising value of money inside the country does not at once cause a rise in the exchange rate. The stringent condition of money in the country is not reflected in the money circulation in the country, but is self-adjusted or compensated by expansion of exports or reduction of imports. This illustrates that relying only on controlling the volume of money supply cannot achieve the anticipated results and that there must be a simultaneous control of the gross volume of loans so as to control the gross volume of exports and imports. At the same time, only the gross volume of loans can truthfully reflect the condition of growth in the currency volume of a country and therefore it must be taken as the target of observation and supervision. A situation of this kind does not wholly exist in our country: first, because our country is enforcing a system of a controlled floating exchange rate; second, because our country's renminbi cannot be freely exchanged; and third, because both our imports and exports are controlled by state. However, certain elements still exist, such as that the exchange rate cannot float freely, being set high or low; and it is also necessary to resort to controlling the loans in renminbi in order to restrict or encourage imports or exports. Seen from our current domestic conditions, the real reason for controlling the gross volume of loans is the lack of flexible and effective measures in regulation. Under the condition of allowing the banks to have more deposits and to grant more loans, it is not possible to promptly regulate and control the volume of deposits and that of cash in hand.

It is true that to take the gross volume of loans as a control target does have certain limitations, the major ones being as follows: The volume of loans cannot follow the changes in economic growth by being flexibly adjusted and can easily depress the normal growth rate of the economy; the various banks cannot take in more deposits and grant more loans, the banking structure can easily become ossified, and the commercial banks' operation vitality will be weakened, restricting the functions of financial organs within a

stated scope, but to financial organs outside the restrictive scope no restriction is applied regarding their loans and other forms of credit activities, thus making it difficult to enforce an all-round control on the gross credit volume of society. How is it possible to have a "chest" or container to control the volume of money supply and the gross volume of loans and at the same time not to produce a strangling effect? Under the current conditions, it is necessary to adopt measures to forecast the gross volume of increase in loans and effect control at separate levels.

2. Changing the planning procedure. The current procedure is, from considering the need for economic development, to first determine the volume of loans for fixed assets investments, then to determine the volume of loans for fixed assets investments, then to determine the volume of issuance of bank notes, but to allow and retain a gap if the demand for loans for circulating funds cannot be satisfied. This is a planning procedure easily susceptible to causing inflation in demand. It also manifests that the central bank's independent character is not great enough and therefore must be improved. From now on, the procedure for planning work should be as follows: First, based on a suitable growth rate of the economy, rational changes in commodity prices, and fluctuations in the number of times money circulates, make an estimate of the planned growth rate of the gross volume of money during the period of the plan, determine the volume of loans by the volume of money, and, according to the condition of the sources of long-term funds, determine accurately the relative weight and volume of the use of long-term and short-term funds. Second, on the basis of separately measuring the possible growth rates in the deposits of the various specialized banks, estimate the amount of funds in the hands of the central bank, including deposit reserve funds, deposits designated for the central bank, and the additional issuance of banknotes. The amount of funds that can be disposed of by the central bank having been determined, within this scope loans will be granted to the specialized banks; thus, through controlling the fundamental amount of money, control is effected over the granting of loans by the specialized banks.

3. Combining planning and forecasting. Regarding credit and loan plans, aside from specially fixed projects (such as present loans for fixed assets investments), which should be subjected to control by mandatory planning, all others should be subjected to control by guidance planning. The above-mentioned extent of the growth rate of loans and volume of money is a control target and may be adjusted according to the year's economic changes and be subjected to quarterly and monthly forecasting. If the control is too tight it should be slightly eased, whereas if it is too loose it should be tightened a little. The adoption of loose or tight monetary policy principally depends on the demands of the economic growth rate and a rational level of commodity prices.

4. Control at different levels. According to current conditions, the growth in national currency supply and in loans may be shown in two planned figures. One of them is found in the national economic plan and credit and loan plan at the end of the preceding year or determined early in the current year. This planned figure tends to be on the low side, leaving a margin, and cannot include within it considerations of changes for the whole year. The

other is a forecast figure based on the year's changes, with adjustments made in each quarter. The central bank in reality exercises control according to forecast figures on the basis of plans that have been fixed. The bank, on the basis of the forecast for the whole year, determines the gross volume of the increases in loans, that is, the highest limit for loans, and grants re-loans. Naturally, this top limit must be subjected to readjustment according to changes in the forecasts. At the same time, after carrying out the national forecast and determining the top limit for loans, it must, in company with its branch banks, forecast the degree of the economic growth rates of the different provinces and municipalities, and separately fix the highest limit for loans for each province or municipality. It then allows the various specialized banks to accept more deposits and grant more loans; while the branches of the central bank will also, within this "chest," grant re-loans. Why is it necessary to have a "chest" in each different plane and enforce control at various levels? This is because the various regions are the fronts of economic activities and control. China has an extensive territory, and economic development is unbalanced. Moreover, in a commodity economy there are many undetermined factors and changes are rapid. Only through carrying out management with due consideration of different conditions is it possible to meet needs and to effect satisfactory control. As for the banks themselves, in the situation of the branch organs being highly dispersed and the complex conditions, the several large or principal banks will find it difficult to enforce effective regulation and control over their subordinate organs. As well as the several large banks, there are also many financial organs and direct activities in the merging of funds. Relying solely on the specialized banks to effect an all-round control of the credit activities of whole society is also not possible. At present, what can be done is to adopt the method of controlling and integrating the specialized banks and the various branches of the central bank and to gradually carry out reform and strive for perfection after a period of actual practice.

III. Flexibly Employing the Tactics of Financial Regulation and Control

Seen from the actual practice over the past 2 years and, starting from our country's actual conditions, in the gradual perfection of economic tactics, strengthening of local statutes, and integration with and employing administrative tactics, the central bank's macroeconomic regulation and control have achieved fairly good results. The economic tactics employed by the central bank in macroeconomic regulation and control were principally the following:

1. System of deposit reserve funds

Due to the existence of derivative deposits, first of all it is necessary to enforce the policy of deposit reserve funds. Statutory deposit reserve funds were established at the beginning for the purpose of ensuring the bank's ability to pay, but at present it has become an important measure for the bank of control loans and money. Working on the gross amounts, the central bank, through either lowering or raising the rate of deposit reserve funds, can respectively expand or reduce the volume of loans and the volume of money in circulation; while, in regard to the structure, the central bank, by means of the deposit reserve fund system, obtains a fairly large amount of funds which,

through equitable distribution, may be used in the departments or enterprises which enjoy priority in development.

At present, in our country the central bank's control tactics are still simple and unitary and an open market has still not been formed. The reserve funds system is an effective measure. It can fulfill roles in the two areas mentioned above. Because this system has just been established and is still not perfect, several problems have been discovered which need to be studied and solved gradually: the first is the determination of comparative rates. Different rates should be applied to different categories of deposits, and those which have a large multiplier figure in money terms should be charged a high rate. The second concerns the method of computation. The reserve funds should be delivered on the basis of the average balance of deposits, that is, computation of the amount to be paid in on the basis of the average amount of the daily balances of deposits of the specialized banks during the readjustment period (10 days or 30 days). The third is the problem of the excessive amount of the excess-reserve. This excess reserve, so-called, refers to the remaining or left-over funds of the specialized banks after having paid to the central bank the reserve funds at the statutory rate, and is also called the surplus reserve. In the accounts, they are shown as the deposits of the specialized banks in the central bank. Central banks of various Western countries have adopted diverse methods to readjust the surplus reserve. This is necessary because if the commercial banks should be allowed to directly dispose of too large an amount of surplus reserve then it may lead to expansion of loans, cause a sharp increase in the money supply, and monetary inflation may result. At present, in our country the various specialized banks have rather large deposits in the central bank. There are objective reasons for this. That is, the banks have a large number of branches and subsidiaries are scattered throughout the country, but our telecommunications facilities are not developed, and the movement of funds is not at all lively. As a result, when centralized in the accounts, their deposits amount to a fairly large figure. Still, they cannot all be loaned out, so that the phenomenon of the arising therefrom of the problem of credit expansion, such as that in the Western countries, does not appear. Nevertheless, the possibility still deserves our attention and cannot be ignored. Following changes in conditions, necessary measures should be taken to have it appropriately controlled. For example, the central bank can adopt compulsory measures to float and sell financial bonds to the specialized banks and other financial organs; or the rate of reserve funds may be raised; or a special account may be set up requiring the specialized banks to deposit into a special account surplus reserves in excess of objective needs. It should also be stipulated that such funds deposited into the special account cannot be used for a specified period, but that the special account's interest rate should be higher than that on the deposit reserve funds.

2. Rediscounts and Reloans

The essence of the rediscounts or reloans extended by the central bank to the commercial banks is putting into circulation a definite amount of the basic currency. The basic currency, so-called, is also called the currency base. It refers to the sum total of the commercial banks' reserves, that is, deposit

reserve funds, deposited in the central bank, plus the amount of banknotes in circulation outside the sphere of the banking structure. From the central bank's viewpoint, the two constituent parts of the basic currency can both be directly controlled. The volume of the basic currency is the basis for an increase or decrease in the volume of deposits and money. The product of the multiplier of basic currency and currency is the sum total of the volume of money supply. An increase in the amount of the basic currency put into circulation means that the money market has become easy and the currency policy is tending to expand. The converse means a tightening of the money market and that the currency policy is tending to be tightened. When the central bank raises the conditions and interest rates for rediscounts and reloans, the volume of basic currency put into circulation is reduced and both the volume of loans and that of money supply are correspondingly reduced; the converse means that the volume of loans and that of money supply are correspondingly increased. In Western developed countries, rediscounts are no longer the central bank's major tool of currency policy, because it is relatively easier for the commercial banks to seek and merge funds in the open market. In our country at present, the open market has not yet been formed and the most flexible and effective method is for the central bank, by means of regulating the reloans to the specialized banks and controlling the absorption or release of the basic currency, to tighten or loosen the money market. It may be said that for a rather prolonged period of time from now on, it is the most important measure for the central bank to take in its execution of the currency policy. Seen from actual practice in the last 2 years, the following problems must be solved well:

First, separation of plan and funds and the gradual changing of the central banks' system of distributing funds vis-a-vis the specialized banks and its method of contracting for and doing it all. The central bank should be responsible for examining and approving the credit and loan plans of the specialized banks. The realization of this plan principally depends on each doing its absorption of funds, with any insufficiency to be replenished through loans in the money market. The central bank may provide loans but cannot be relied upon for the "supply" of loans. That is to say: the practice of the central bank and the specialized banks "eating from the same big pot" in regard to funds must be thoroughly eliminated.

Second, regarding the system of reloans which the central bank uses vis-a-vis the specialized banks, it should be gradually subjected to economic regulation measures based on the demands of being beneficial to arousing the enthusiasm of the various banks in absorbing funds and also of being beneficial to macroeconomic control. The "temporary loans" currently granted by the central bank to the specialized banks have in reality surpassed the scope of the original plans and embrace three portions: the irrecoverable portion due to the increase in commodities in stock at yearend; seasonal loans within the year which cannot be recovered within 10 or 20 days; and temporary loans for short-term turnover. In view of these conditions, the control of the loans from the central bank to the specialized banks may be divided into two steps. The first step is to demarcate the duration periods and the interest rates for the above-mentioned three kinds of loans of different natures. The second step is that we may consider demarcating them into directly distributed

loans, nondirectly distributed loans, and temporary loans. So-called directly distributed loans refers to loans directly distributed to the specialized banks according to the plan. This portion of loans should be small in volume, and carry a fixed interest rate, which should be slightly higher than the average interest rate on deposits, so as to encourage the specialized banks to first of all absorb funds from the market. In addition, the interest rate should be higher than the discount interest rate between the banks; this to make the specialized banks develop the lateral merging of funds. As for the so-called nondirectly distributed loans, it refers to setting aside an amount of funds to be handled by the central bank for regulation purposes. No particular specialized bank is designated in advance for distribution, but distribution is to be made to the various financial organs on a competitive basis, based on the condition of supply and demand for funds in the market. The interest rate for this category of loans is higher than that for the other category and also floats freely. Thus through changes in the interest rates, the central bank can obtain signals of the easy or tight condition of the money market. The nondirectly distributed loans may take two forms. One of them is rediscounts. Following the specialized bank's development of the business of discounting commercial bills, the people's bank may selectively rediscount the commercial bills in the hands of the specialized banks. A slight preference may be given in the interest rate, such as being slightly lower than that on nondirectly distributed loans of a credit or unsecured nature. The other form is nondirectly distributed loans of a credit or unsecured nature. The interest rate on this category is based entirely on market competition. The remaining kind of "temporary loan" is solely for the purpose of helping the specialized banks to meet temporary shortages of circulating funds. The period for this category of loan is rather short, such as 15 or 30 days, while the interest rate is usually higher than that on nondirectly distributed loans, being the highest among the interest rates of the central bank. This can make the specialized banks endeavor to absorb funds from the market or borrow funds or discount their notes from their fellows to ease their shortages of funds, without having to rely solely on the People's Bank.

Third, management of reloans at various levels of the central bank. In principle, loans of the central bank should be centralized so as to facilitate unified control and to prevent splitting up into regions and the disguised forming of regional central banks. This is to ensure the realization of the state's macroeconomic policy and currency stability. However, China's special conditions must be considered: a large country and unbalanced economic development; various regions directly managing their economies and the gradual forming of economic zones with cities and towns as the center; the undeveloped state of the currency and the branches of the several large banks lacking mobility in their handling of funds; and a lack of modernized management methods, requiring the unified control of a central banking system, the lively adjustment and regulation of funds, and the prompt settlement, suiting measures to local conditions, of problems of a need for funds for economic development. Therefore, under the condition of insisting on a unified plan and policy, branches of the central bank should be given limited power in management and control.

3. Financial policy and the financial market

Financial regulation has two sides, regulation of the gross volume and regulation of the structure. The former is difficult, while the latter is even more so. Moreover, if the latter falls short of its purpose, the former cannot achieve its anticipated results.

In capitalist countries, the readjustment of the economic structure is automatically realized through the market mechanism. For example, tightening of the market will force a rise in interest rates and enterprises with poor economic results and which are unable to stand the strain will be eliminated. Naturally, certain measures of a policy nature have also to be adopted.

Our country must make use of the market mechanism but should not depend on blind market competition to readjust the economic structure. Viewed from the national economy as a whole, it is necessary to determine a development strategy and formulate an industrial policy. As for the banks, they must arrange their credit and loan plans and formulate a financial policy in accordance with the demands of the development of the national economy. If regulation of the economic structure falls short of its purpose and those organs that should be fostered cannot grow, while those that should be reorganized or eliminated cannot be so reorganized or eliminated, then it becomes difficult to realize control of the scale of credit and loans. If the scale is rigidly enforced, then the situation of a measure being "applicable in all circumstances" may develop, causing the depression of the economy. Actual practice has shown that in our country, in formulating and carrying out a financial policy with differential treatment of the regions, it is essential to undertake readjustment of the various phases of the economic structure, such as the industrial structure, enterprise structure, and product structure. The current problem is: how to make the various specialized banks and other financial organs truly carry out, in a thoroughgoing manner, the policy formulated by the central bank. A preliminary consideration is that the following measures should be adopted: first: planned arrangements. When arranging the plans for credit and loans, policy demands must be manifested through determining the framework for the utilization of the funds and arranging for special funds to meet the state's special development needs. Second, policy announcements. It is necessary each year to announce at an early date the financial policy, pointing out the major points of support and the major points of restriction, so as to facilitate the financial organs' arranging their work, and to adopt concrete measures for its enforcement. In the course of the year, based on economic changes, certain concrete policy measures should be readjusted and replenished. Third, differential interest rates. Interest rates are an important tactic in enforcing the differential treatment policy. The forms taken may be many and various, such as interest subsidies, preferential interest rates, penalty rates, and so forth. The interest-rate policy should be announced once every year. Fourth, foreign exchange control. Projects and products supported by the state must be given preferential treatment in foreign exchange control, as well as special consideration when they apply for renminbi loans. Fifth, use of the financial market, on the one hand effecting control of the gross volume and on the other hand readjusting the economic structure. Following the central bank's control of the money market,

the enterprises will be forced to go to the financial market when making loans. If the demand for loans is large, interest rates will be raised, so that funds will flow in the direction of high economic benefits, whereas projects and enterprises with poor economic results will find it difficult to borrow money and objectively will be restricted.

IV. Reform the Structure of Control of Funds; Break the Rigid Funds Supply System

1. Reforming the management structure of fixed assets loans, so as to facilitate the control of the scale of investment. Fixed assets loans should be divided into two parts: one portion consists of the major construction projects ensured by the state. It is attended to by the special financial organs of the government, the principal source of funds being financial appropriations by the state. Any insufficiency will be covered by the state's issuance of bonds, without crowding the banks. The other portion consists of the construction projects and technological transformation projects outside the realm of projects which the state must protect. They are handled by special long-term credit organs, with the source of funds being principally the issuance of financial bonds, bearing high interest rates if necessary. Regarding this type of loan, the banks will assess the projects, themselves determine the projects' benefits, and bear the investment risk. This will be beneficial to adjusting the industrial structure and keeping under control the scale of investment through self-raised funds.

2. Reforming the management structure of circulating funds. At present, with hundreds and thousands of households undertaking capital construction projects, the situation of banks alone contracting for the supply of circulating funds must be changed. Two steps may be taken. The first step is to adopt measures to make enterprises replenish their own circulating funds. If temporarily funds cannot be replenished up to 30 percent of the whole, the banks, through the issuance of financial bonds, will provide enterprises with loans at a high interest rate. At the same time, it must be stipulated that newly invested projects must arrange for 30 percent of the self-owned circulating funds. The second step is that the banks may select their patrons, while the patrons themselves may select banks. The banks grant loans according to the credit standing and economic benefits of the enterprises; if the enterprises cannot obtain any loans from the various banks, of necessity they will make their own readjustment, thus thoroughly rectifying the system of banks supplying the enterprises with circulating funds.

3. Reforming the system of banks supplying funds to state finance. From now on, when financial disbursements exceed receipts and red figures appear in the budget, no bank overdrafts should be made, but the deficits should be covered through the issuance of state bonds. After the floating of the state bonds, aside from the purchases to be made by enterprises and/or individuals, the various commercial banks and financial organs may also buy them of their own accord, except that the central bank itself may not make any direct purchase. The issuance of bonds by the state implies that government is competing for funds with the people, and the more government expends the less money will be available for the people's use. This appertains to the

regulation of the structure and does not increase the volume of the money supply. If the central bank should make any direct purchases, this will result in government and the people both expanding investments, and the consequence will be credit expansion and monetary inflation. As for the central bank buying and selling bonds by means of the financial market, it is a measure to regulate and control the volume of money supply and is to serve the purpose of realizing the currency policy. It is different in nature from the central bank directly buying state bonds.

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[Article by group of entrepreneurs: "What 30 Entrepreneurs Think and Demand"--capitalized passages published in boldface]

[Text] At the "Symposium on Entrepreneurs and Economic Development in China" jointly sponsored by 39 units including the Golden Delta Entrepreneurs' Club, the Institute of China's Reform of the Economic Structure, and the Baoshan Iron and Steel Complex, we had an opportunity to gather together and discuss the matters concerning reform and the future. We believe it is necessary to make the main points of our ideas known to the public.

1. ECONOMIC REFORM OVER THE PAST 8 YEARS HAS STRUCK AT THE TRADITIONAL RIGID SYSTEM AND PUSHED ENTERPRISES ONTO THE MARKET STAGE. Although enterprise still cannot completely change the situation whereby they depend on administrative departments, they have gotten an impetus to seek profits and have begun to feel the pressure of market competition. The 3d Plenary Session of the 12th CPC Central Committee put forward the task of developing the commodity economy in a planned way, thus pointing out a definite orientation for further carrying out economic reform in our country. The main symbol of the replacement of the product economy with the commodity economy, and the replacement of the old system with the new, is that enterprises have replaced the government and become the main body in the economic field, and that entrepreneurs have taken the leading roles on the market stage. The general trend in economic development and reform requires the growth of a new generation of entrepreneurs. This is the demand of our times and the inexorable trend of history.

2. THE TAKEOFF OF THE CHINESE ECONOMY NEEDS ENTREPRENEURS. The main role of entrepreneurs is to create. That is, to create new products, to apply new technologies, to open up new markets, to exploit new resources, and to establish new industries. To a great extent, the economic takeoff and technical progress in China depend on the raising of a generation of entrepreneurs capable of blazing new trails and creating new things. China's structural reform needs entrepreneurs, who are fighting in the forefront of reform. The entrepreneurs have to implement policies and bear the pressure of reform and have to strive for successes of reform through their activities. Undoubtedly, whether China's reform can be successful depends on the struggle and efforts of a large number of entrepreneurs who are firm and tenacious in reform.

3. THE CURRENT SITUATION OF CHINA'S ENTREPRENEURS MUST BE UNDERSTOOD BY SOCIETY. The benefits, power, and position of entrepreneurs as a whole does not suit their risks, responsibility, and role. In addition to the economic risks such as market changes and profits, and the increase or decrease in the profits retained and bonuses, they have also to assume political risks resulting from all kinds of obstacles and pressures coming from all directions. However, their benefits have nothing to do with the economic returns obtained under their management. Chinese entrepreneurs do not have the necessary power to operate and manage but still have to assume responsibility for the enterprises. They are organizers of the productive forces, creating wealth for the state and laying a foundation for economic development, but they do not have relevant political, economic and social positions. They are unable to act as the main body of enterprises and fully express their will and are just passive executors of policies; they cannot decide their own destiny and their contributions and errors are often unjustly appraised: they do not get the respect they deserve from society and their professions are not attractive to people. Chinese entrepreneurs pin their hopes on reform.

4. THE DEVELOPMENT OF THE SOCIALIST COMMODITY ECONOMY CREATES CONDITIONS FOR THE GROWTH OF ENTREPRENEURS. Practice shows that under the condition of public ownership, entrepreneurs can emerge when the environment and methods of management are changed. A number of peasant entrepreneurs have emerged from rural enterprises; a number of capable people have been trained in state enterprises which have improved their management after suffering long-term losses; and many "mediocre persons" before the reform have displayed surprising abilities since the contract and leasing systems were practiced. All this shows that once qualified people are entrusted with power and responsibility, and provided with relevant benefits, they are able to become entrepreneurs. It also shows us the bright prospect that provided the reform continues to develop, entrepreneurs will surely emerge.

5. THE ENTREPRENEUR'S RESPONSIBILITY IS TO ENSURE THE APPRECIATION OF ENTERPRISE CAPITAL. Chinese entrepreneurs feel it difficult to find the real representatives of the interests of enterprise capital. The organization department, which is in charge of personnel affairs, and the administrative department are not the real representatives of the interests of enterprise capital. There is no reasonable and unified standard for the appraisal of entrepreneurs. Perhaps, practicing the joint stock system, under which the entrepreneurs are held responsible to the board of directors--the owner and representatives of the interests of enterprise capital--is a channel for solving this problem. Contract, leasing, and other kinds of responsibility systems may also be effective attempts to invigorate enterprises. We hope that more measures will be adopted to blaze new trails for enterprises. We hope that more measures will be adopted to blaze new trails for enterprise reform.

6. THE MARKET IS AN OCEAN FOR ENTREPRENEURS TO DISPLAY THEIR ABILITIES. If entrepreneurs cannot get essential factors for production directly from the market, but have to wait for an allocation by the administrative department, they are just like stranded fish, or boxers who are bound hand and foot. Of the various essential factors for production, materials and funds are the most important, especially the former. The worst thing for an enterprise is that it cannot get the materials it wants with its money. The allocation system

cannot be changed and the product market cannot be formed unless products are relaxed and the supply of raw materials is ensured. Relaxing the supply of raw materials step by step, while relaxing the processed products, are effective measures for reducing planned allocation, reforming the price system, and forming the product market. To suit the needs of opening up to the outside world, Chinese entrepreneurs must have the international market in mind. While creating conditions for absorbing foreign capital, they must also give the green light to Chinese enterprises for entering the international market. We hope that the foreign trade system will be reformed as soon as possible and that large enterprises and all those with favorable conditions will have the right to engage directly in export.

7. WE HOPE THAT GOVERNMENT DEPARTMENTS WILL FOLLOW THE GENERAL TREND OF REFORM, ESTABLISH THE IDEA OF TAKING ENTERPRISES AS THE MAIN BODY, AND PROVIDE ENTREPRENEURS WITH A LARGER FIELD OF ACTIVITY. We cannot but point out that some departments in charge are not thinking of giving enterprises more power, but are trying to weaken their power in a thousand and one ways. They are also trying to impose instructions and production targets on enterprises, to scramble for products that are in short supply, to cut funds retained by enterprises, and to obstruct lateral economic ties. If we put reform in the first place, we should ask those departments in charge to give enterprises more power and take an attitude and action of self-revolution. When appraising their performances, the opinions of entrepreneurs should be taken into consideration. The audit, supervisory, and inspection departments must also adhere to the principle of promoting development of the commodity economy and promoting the reform so as to maintain normality in economic motion. To prevent random interference in enterprise affairs by administrative departments, we suggest that a court be established to deal with this matter so that entrepreneurs can have a place to [word indistinct] their rights and interests.

8. WE BELIEVE THAT IT IS NECESSARY TO CHANGE THE VALUE CONCEPT AND TO FOSTER ENTERPRISING SPIRIT. In all developed countries, "most people of outstanding ability are working in enterprises." However, in China, government officials are the main body. Very few people want to become entrepreneurs. When selecting jobs, university graduates would first select government departments, then scientific research institutes, and only when they have no alternative in selection do they go to enterprises. If an entrepreneur wants to be successful his only way out is to change his career and take up an official post. If people of outstanding ability do not keep coming to join the ranks of entrepreneurs, how can the entrepreneurs shoulder the heavy task of economic takeoff? Entrepreneur is a profession requiring high creativity. He must have the mode of thinking of a philosopher, the brain of an economist, the boldness of vision of a politician; the flexibility of a diplomat, the resoluteness of a military officer, and the foresight of a strategist. We must make entrepreneurs feel honored and proud of their achievements so as to overcome mental obstacles for those who want to join the ranks of entrepreneurs, and so as to encourage and attract people to engage in the creative cause of establishing and developing enterprises.

9. WE NEED TO ESTABLISH ENTREPRENEUR SOCIETIES AND ORGANIZATIONS SO AS TO REFLECT THEIR VOICES AND WISHES AND GRADUALLY MAKE THEM INDEPENDENT SOCIAL FORCES AFFECTING CHINA'S POLITICAL AND ECONOMIC PROGRESS. Social organizations such as entrepreneurs' clubs and associations are important links between the enterprises and the government. They are also places for entrepreneurs to exchange information and improve themselves.

10. ENTREPRENEURS SHOULD ENHANCE THEIR CONSCIOUSNESS AND IMPROVE THEIR OWN QUALITY. We do not have a ready and reasonable environment for our operation. We need ability and courage to assume risks and meet challenges and must have the spirit of devotion. We must be good at seizing opportunities. If we just wait and see, we will only lag behind. We must be good at using tactics and must prevent rashness in doing things or we cannot succeed. We must improve ourselves in the course of reform and create a good future by blazing new trails. We are now in a period of great transformation. We believe that a generation of socialist entrepreneurs with courage and insight will surely be raised!

Zhu Erpei, secretary of the party committee of the Baoshan Iron and Steel Complex

Li Huazhong, manager of the Anshan Iron and Steel Works

Zhou Jiajun, deputy chief of the Daqing Oil Management Bureau

Zhang Ruji, chief of the Kailuan Mining Bureau

Zhao Fusheng, director of the Jiangnan Shipyard

Li Qingke, director of the Hudong Shipyard

Zhao Zhongyu, manager of the Panzhihua Iron and Steel Works

Peng Zhechun, manager of Lanzhou Chemical Industrial Company

He Zemin, director of the First Tractor Plant

Shao Jingwu, director of the Shanghai Diesel Engine Plant

Jing Deyuan, general manager of the Shanghai Aviation Industrial Company

Chen Meifu, director of the Shanghai Machine Tool Plant

Yin Guomao, director of the Chengdu Seamless Tubing Mill

Guo Daoyuan, director of the Ningguo Cement Factory

Qi Xinrong, director of the Pengpu Machine Plant, Shanghai

Yan Weisheng, director of the Liaoning Tyre Factory

Chen Zhaochu, director of the No 1 Film Factory of the Ministry of Chemical Industry

Peng Guangxian, secretary of the party committee of the Sichuan No 2 Heavy-duty Machinery Plant

Liu Qingtao, director of the Beijing No 1 Machine Tool Plant

Zhang Denan, director of the Harbin Electrical Machinery Plant

Yu Zhian, general manager of the Changjiang Motor Company

Fan Chongwu, director of the Changsha Motor Plant

Xu Xiaochun, director of the Beijing Printing and Dyeing Mill

Meng Xianghai, director of the Jiamusi Paper Mill

Zhong Huaqing, director of the Beijing New Building Materials Plant

Chen Xuan, director of the Meishan Sugar Refinery, Guangdong

Qian Dahong, manager of the Shanghai Tunnel Project Company

Chen Jielu, director of the Jiafeng Cotton Mill, Shanghai

Zheng Baolun, director of the Xianfeng Electrical Machinery Plant, Shanghai

Liu Zhenya, director of the Zhuzhou Smeltery

30 November 1986 in Shanghai

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CSO: 4006/249

NATIONAL AFFAIRS, POLICY

MOST ELECTRONICS FACTORY HEADS WANT TO RESIGN

Shanghai JIEFANG RIBAO in Chinese 23 Aug 86 pp 1, 3

[Article by correspondent Zhang Zhongfang [1728 0022 2455]; "Managing a Factory Is Difficult: More than Half of All Managers Want To Be Relieved, Reports a Sampling Survey of 300 Chinese Factories; the Head of the Factory Managers Research Association of the China Electronics Industries Association Analyzes the Causes for Our Correspondent"]

[Text] Zheng Wenhui [6774 2429 6540], head of the Factory Managers Research Association of the China Electronics Industries Association, revealed to this reporter that a survey of 300 electronics factories throughout China shows that today's factory managers feel "being a manager is difficult." About 62 percent of them want to be relieved. Zheng Wenhui explained several reasons that account for this:

1. There are many wide-ranging and rapid changes in macroscopic policy which enterprise find are difficult to adjust to.

Many factory managers believe two things made life difficult for enterprises at the end of 1984 and the beginning of 1985. The first was loans. At first public opinion encouraged factory managers to spend money; the propaganda held that a manager who could not use loans to improve production and management in industry was not a good manager. Before long, however, the banks tightened credit, creating serious problems for enterprises. Before credit was tightened, the banks were selling loans like retail goods: even if you did not want one they still insisted you take one. Once credit was tightened, the banks would not even loan enterprises money that was urgently needed. Some enterprises which had expanded the scope of their business and the size of their investments to meet the demands of growth and restructuring were forced to cut back in areas in which they had not yet begun production when credit was tightened. Large quantities of goods and capital were kept in stock too long, thus causing many very pressing problems. Enterprises have had to carry a very heavy burden; managers must expend a great deal of effort. They are tired of struggling just to survive. The other is foreign exchange. Around the end of 1984, there was another similar about-face in policy, this time on the use of foreign exchange. As a result, enterprises have been placed in a

situation in which they are both passive and embarrassed. Some factory managers ask how can enterprises bear a situation in which macroeconomic controls are so rapidly eliminated and then restored?

2. Simplification of administrative structure has only made matters more "complex."

Every level of administration is in a power struggle with the enterprises. Factory managers have a very hard time handling requests for special treatment coming from all quarters. The unevenness of reform had made the structure of each level of administration extraordinarily complicated. If there is a head above there must be a mouth below. The administrative organizations of each department use administrative and economic methods to consolidate their power such as by forcing enterprises to set up unnecessary offices. Thus organizations at a higher level are duplicated and enterprises become overstaffed. There are many different kinds of offices, such as the factory office, the management office, the quality control office, the technology introduction office, the technical innovation office, the instructor's office, the party committee office, the policy implementation office, the party reform office, the economic offenses office, the criminal offenses office, the environmental protection office, the old cadres' office, etc. Work is duplicated in many administrative offices, markedly increasing the number of people doing organizational work, and causing a sharp decline in the number of people serving on the first line of production. Thus shifting responsibility to others, arguing over trifles, and overstaffing are becoming more serious. For the approximately 2,000 enterprises in the Shanghai region there are more than 40 offices.

The enterprises carry an even heavier burden. Factory managers generally believe that it is very difficult to avoid spreading out the work. There are two main reasons for doing things this way: first, the enterprise must obey people who have power; second, the enterprise cannot afford to offend "local bullies." Some factory managers in Jiangsu say that after the enterprise has paid income tax along with various surtaxes it is asked to make a contribution of at least several hundred thousand yuan for the construction of roads, installation of power lines, building of water and coalgas pipelines, repairing of sewers, etc. A manager of a factory which was once run by the municipal authorities said that where there was only one mother-in-law before controls were relaxed, now there are mothers-in-law everywhere. In Nanjing, a factory was asked to pay 800,000 yuan for repairing 300 meters of road running past the factory entrance. Some factory managers say angrily that factories are like a piece of meat "at the intersection" people with much power take a big piece, people with a little power take a small piece, and passersby take a bite as well.

3. The most important of the 10 measures on self-management which the State Council devolved to lower levels have not yet been given to the enterprises.

Many factory managers believe that the most important of the 10 measures on self-management, those concerning autonomy in personnel and finances, have not been truly implemented in the enterprises. The most important reasons for

this is first, "authority has not been turned over to lower levels" and, second, "obstacles concerning finance, labor and banks." Analysis of data from the sampling survey shows that these two factors account for 74.3 percent of all cases. The enterprises want to use their autonomy on personnel to hire and to fire. They cannot do this because they cannot get the people they want and they cannot get rid of people who are useless. If an enterprise wants to fire a sluggish employee it will immediately be harassed by the street committee and the police station who will say the factory is "casting an unstable element into society" and is "affecting the stability and unity of the political situation." Some factory managers dare not use the authority which has been given to the factories. For example, in line with the principles of "as required, in small amounts, and rationally," an appropriate sum may be taken from the profits retained by the enterprise for the factory manager's fund. However, some factory managers, when using this authority, fear that they will be accused of having an incorrect style of work. Some factories in the Shanghai region, because they were appropriately treated by some jointly managed units, were considered by the departments concerned to have an incorrect working style. The factory manager and secretary had to submit to investigations at large and small meetings and to pay economic compensation before the matter could be settled.

4. It is very difficult for factory managers to make adjustments, handle employers, set policy, and to lead. Managers have practically no authority.

The sampling survey of 300 factories shows that 36.8 percent are still implementing the "factory manager under the party committee responsibility system" and that among the 63.2 percent which have implemented the "factory manager responsibility system" most are carrying it out only in name. Decisions on personnel matters and on management decisions are still discussed by the party committee, and the party committee or the party secretary still have to last say. Yet most of the members of the party committee come from the frontline of political work; very few of them understand production and management, and so their decisions are often impractical.

5. Old habits and pressure of opinions make the factory manager's job difficult.

Once a factory implements the "factory manager responsibility system" the factory manager becomes the center of criticism. Many factory managers observe that people who actually work are few bystanders are many; supporters are few and critics are many. Few people make allowances for difficulties; many quarrel over trifles.

Some people describe this by saying "one person works, two people watch, three people supervise, and four people carry out a study." Some managers say unhappily that for factory managers today if they do more, they make more mistakes; if they do less, they make fewer mistakes; and if they do not do anything, they still make mistakes. If the manager makes a few mistakes he takes criticism from above and below and blame for all those around him. Managers who commit minor mistakes are accused of having an improper working

style. They are interrogated by the party committee and investigated by the party rectification committee. Managers who make serious mistakes are forced to resign and fear imprisonment.

Some factory managers say the factory manager is at the joint focus of four triangles: production, distribution, and sales; personnel, finance, and materials; responsibility, authority, and benefits; and state, enterprise, and workers. All the contradictions in these triangles projected onto the manager put him under terrific pressure. Factory managers sigh that those above him have only punishments; they are not concerned or charitable. They will not take steps to protect the manager, therefore managers feel insecure.

Factory managers generally believe that unless reforms are carried out completely the "factory manager responsibility system" will be implemented in name only. Today's factory managers have heavy responsibilities, little authority, and receive little compensation. Their responsibilities, their workload, and their spiritual burden are much heavier than before. They cannot even relax on holidays. Today's factory managers are not rewarded for the risks they take, and lack legal protection, and are not protected by law. They work only out of their responsibility to the party, the goodness of their heart, and their duty as professionals.

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PROVINCIAL AFFAIRS

GANSU HOLDS MEETING ON REFORM OF ENTERPRISE LEADERSHIP SYSTEM

HK250358 Lanzhou Gansu Provincial Service in Mandarin 1100 GMT 23 Dec 86

[Excerpts] Strengthening democratic management in enterprises is an important component part of reform of the leadership system in enterprises. This was put forth by Comrade Hou Zongbin this afternoon at a meeting of party, administration, and trade union leading cadres of some factories, mines, and enterprises.

Not long ago, Comrade Hou Zongbin led 12 investigation groups consisting of 40-odd cadres from the relevant departments of the provincial party committee and government to 151 factories, mines, and enterprises to investigate 3,400 cadres and workers. The result of the investigation indicates that in enterprises where factory managers had a strong sense of democracy and respected the workers' role as their own masters and where workers had the initiative, they were well run and developed quickly; in other enterprises, the style was bad, the people were not satisfied, and the economic results were poor.

Hou Zongbin pointed out that after instituting the manager responsibility system, managers have had big powers. But this does not mean that the workers' role as their own masters has been downgraded and democratic management has been weakened. On the contrary, with the expansion of managers' power, we must emphasize the workers' role as their own masters. One of the important tasks in reforming the enterprise leadership system is to ensure democratic and scientific management of enterprises in the organization and system. That is to say, we must, through the channel of democratic management, pool workers' wisdom, experiences, and creativity and bring their initiative into full play.

In conclusion Comrade Hou Zongbin put forth specific suggestions and demands on how to strengthen the enterprise leaders' sense of democracy and how to protect workers' rights in the exercise of democratic management of enterprises.

Provincial Party Committee Secretary Li Ziqi also attended the meeting.

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CSO: 4006/254

PROVINCIAL AFFAIRS

GANSU GOVERNOR ON ECONOMIC TASKS FOR 1987

HK260249 Lanzhou Gansu Provincial Service in Mandarin 1100 GMT 25 Dec 86

[Excerpts] Governor Jia Zhijie said at the provincial economic planning conference which opened today that the main tasks in the province's economic work next year are to carry out reforms in depth, promote links, highlight economic results, improve quality, perfect the policies, and vigorously implement the measures.

Jia Zhijie said: The province has maintained a good momentum of sustained, steady, and coordinated economic growth this year. Next year the province must pay attention to grasping the following tasks:

1. Get a good grasp of grain production, stabilize the grain area, and truly mobilize the peasants' enthusiasm for growing grain.
2. Continue to do a good job in planting grass and trees and switch to integrating this work with developing commodity economy. We must stress increasing the peasants' income.
3. We must unswervingly shift the whole of economic work onto the track of focusing on improving economic results.
4. We should relax the policies, invigorate the economy, and continue to give free rein to the development of township and town enterprises and urban collective economy. We must base our efforts on the province's strong points and face the markets of the whole country.
5. We must further invigorate circulation and perfect the market setup.
6. We must further invigorate the enterprises and continually boost their vitality for self-development.
7. We must do a good job in supporting poor areas.
8. We should step up science, technology, and education undertakings, centered on economic construction.

Jia Zhijie said: The province is facing many difficulties in its economic work next year. The province must have a sense of urgency. We must actively change our concepts, continually deepen the reforms, and relax the policies.

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CSO: 4006/226

PROVINCIAL AFFAIRS

GUIZHOU LEADERS ATTEND PLANNING WORK CONFERENCE

HK240227 Guiyang Guizhou Provincial Service in Mandarin 2300 GMT 23 Dec 86

[Excerpts] The provincial planning work conference, which concluded on 23 December, pointed out that in arranging the province's national economic and social development plan for next year, it is essential to continue to put reform in the first place, further emancipate the mind, and establish new concepts suited to reform and opening up, so as to achieve a new breakthrough in developing the province's commodity economy and promote sustained, steady development in the national economy.

Hu Jintao, secretary of the Provincial Party Committee, listened to the reports. Governor Wang Chaowen, Vice Governor Zhang Shukui, and Provincial Planning Commission Chairman Zhou Guanghua made speeches.

The meeting pointed out: Guizhou must continue to assign an important position to developing agriculture in 1987, and increase input in agriculture. We must improve the agricultural production conditions, boost output of major products such as grain, tobacco, and rapeseed, and improve the township and town enterprises. We should further readjust the rural production structure, get a good grasp of supporting poor areas, and promote all-round development of rural economy.

We must base our industrial production efforts on tapping the potentials of and transforming the existing enterprises, vigorously improve product quality, and achieve a marked improvement in economic results. We should further readjust the production structure, the product mix, and the ownership structure, vigorously develop light industry, and actively support the development of collective and individual economy.

While increasing and improving social supplies, we should control and guide social demand. We must actively invigorate commodity circulation and gradually establish and perfect a market setup.

We must work hard to develop education, science, and culture, and achieve more in building socialist spiritual civilization.

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CSO: 4006/226

PROVINCIAL AFFAIRS

3-DAY HEBEI ECONOMIC WORK FORUM CONCLUDES

SK221227 Shijiazhuang HEBEI RIBAO in Chinese 5 Dec 86 p 1

[Text] The 3-day provincial economic work forum ended on the afternoon of 3 December. During the forum, Vice Governors Hong Yi, Zhang Runshen, and Song Shuhua respectively relayed the guidelines of the Central Rural Work Conference and the National Planning Conference. Comrades participating in the forum expressed their opinions on the province's agricultural, industrial, financial, and trade work for the present and next year.

The forum discussed the province's rural economic work for next year. It urged that great breakthroughs be made in developing town and township enterprises and in the breeding industry, as well as in making the plains green by planting trees and flowers and growing grass. It also called for ensuring stable increases in grain, cotton, and oil-bearing crops; further developing rural natural resources and a diversified economy; and increasing the peasants' income. We should continue to deepen the reform work, serve and improve the village-level cooperative economic organizations, and encourage the peasants to organize various categories of economic cooperatives. We should concentrate efforts this winter and in the coming spring on the management of wheat fields, capital construction on farmlands, and the construction of water conservancy works.

Industrial enterprises should focus on upgrading economic results to deeply conduct reform, to enliven the economy, and to strive to increase their production, development speed, and economic results at the same pace in the coming year. In order to achieve this, we must generally popularize the system of the plant head taking responsibility, carry out the system of linking rights with interests and responsibility, continue reforming and perfecting the system of enterprises' wages, develop the markets for means of production, open and enliven technological markets, and build a powerful rank of purchasing and marketing workers. While grasping production, we should strengthen ideological and political work.

We should strive to assign, according to the method of allocating goods and materials in line with the grain purchasing work, grain contract tasks to the grassroots before spring sowing. In order to strengthen the enterprises'

vitality, we should rationalize the channels for commodity circulation, open up markets, and achieve commercial reform. The governments at all levels should correctly handle the relations between strengthening tax collection and management and enlivening the economy by firmly grasping the tax collection work, help the enterprises improve management and operation and upgrade their profit-earning levels, place strict restrictions on the units in which the revenue is reduced and expenditures increase, strictly reduce expenditures, and cut expenses.

Xie Feng, governor of the province, made a speech at the closing of the forum. With regard to improving leadership style, he called for enhancing the sense of service and the idea of being public servants, opposing the practice of abusing power for selfish ends, accelerating the work pace, firmly grasping the implementation of all measures, and making efforts to promote our province's economic work.

Attending the forum were commissioners of all prefectures and cities, mayors, county heads, and district heads, and responsible comrades of all provincial-level departments.

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CSO: 4006/254

PROVINCIAL AFFAIRS

HUBEI MAKES GOOD START IN SEVENTH 5-YEAR PLAN

HK250237 Wuhan Hubei Provincial Service in Mandarin 1100 GMT 22 Dec 86

[Text] While making a report at a provincial conference on planning which opened today, Xiao Quantao, chairman of the Provincial Planning Commission, pointed out: The situation in the national economy and social development of our whole province in 1986 is good. Some tough factors have been eliminated in the course of the development of the national economy. The contradictions that general social demand exceeded general social supply has been alleviated. [Word indistinct] economic environment as a whole becomes easy. Our province has increased its gross industrial and agricultural output value by 100 percent for the first time 4 years ahead of schedule and made a good start in the all-round implementation of the Seventh 5-Year Plan.

Xiao Quantao said: Despite serious disasters, our whole province has reaped an all-round bumper agricultural harvest in 1986. Its gross output of grain has exceeded the past highest output in 1984. Its industrial production has evenly and steadily developed. The production of exported products has markedly increased. Our province has made a new record in foreign exchange earned from export. Its financial revenue has steadily increased. The tense situation in the supply of and demand on credit funds has been gradually mitigated. The contradictions between the supply of and demand on bank money have been further diminished. Due to the even and steady increase in social production, the situation in the supply of commodities in the urban and rural markets throughout our province is better than last year. The situation in the short supply of important materials, which had continued for many years, has been alleviated the output of coal, rolled steel, and cement has increased.

Xiao Quantao said: The main task of the 1987 plan for the national economy and social development of our province should be to persist in reform, to stabilize the economy, to readjust the structure, to emphasize the key projects, to raise benefits, to strive for a basic balance of general social supply and demand, and to create a relatively easy economic environment and a relatively good social environment.

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CSO: 4006/226

PROVINCIAL AFFAIRS

QINGHAI GOVERNOR VIEWS QINGHAI'S ECONOMIC CHARACTERISTIC

HK240715 Xining Qinghai Provincial Service in Mandarin 2330 GMT 22 Dec 86

[Text] At a provincial seminar on economic structural reform held recently, Governor Song Ruixiang pointed out that Qinghai's economic polarization determines the province's dualist economic pattern, that is: 1. With the existing industry as its foundation, the province should take the road of incorporating enterprises. 2. The province should vigorously develop individual economy, the handicraft industry, and enliven circulation in vast pastoral areas.

Song Ruixiang said that the province has done a lot of work and achieved some results in economic structural reform over the past few years, but it has not yet made a big breakthrough in this respect. The main reason is that the reform methods do not consider Qinghai's characteristics and we lack typical experiences of national significance.

While analyzing Qinghai's economic characteristics, he said that one polarization is the industrial zone which has some economic foundation, including light industry, the textile industry, chemical industry, and military industrial bases with Xining as its center and some industrial zones to be exploited, such as the hydropower industry on the upper reaches of the Huanghe, the Qaidam oilfield, and the salt lake. The other polarization is pastoral areas with a low level of production forces, where there are abundant natural resources and little population, the commodity economy is backward, and the technological and management level is low.

Comrade Song Ruixiang held that in industrial zones, it is necessary to develop enterprise groups according to different categories, to set up [words indistinct] metallurgical wool spinning and salt chemical industrial combined enterprises, and to turn these into the main body of the province's economic development. In pastoral areas, particularly in Yushu and Golog autonomous prefectures, it is necessary to vigorously develop individual economy, to strengthen the herdsmen's concept of commodity economy, to actively develop the industries of the nationalities so as to increase people's income. Meanwhile, attention must be paid to enlivening commodity circulation.

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CSO: 4006/254

PROVINCIAL AFFAIRS

SHAANXI REPORTS ECONOMIC SUCCESSES, PROBLEMS

HK250217 Xian Shaanxi Provincial Service in Mandarin 0030 GMT 25 Dec 86

[Excerpts] Station reporter (Bao Li) has learned from the provincial planning conference currently in session that Shaanxi has done very well in executing its national economic plan this year. It is hoped that all targets will be fulfilled or overfulfilled. Total industrial and agricultural output value is estimated at 27.7 billion yuan, an increase of 8.2 percent over last year. Gross domestic product is estimated at 19.08 billion yuan, an increase of 8.3 percent. National income is estimated at 15.8 billion yuan, a rise of 8 percent.

Despite severe drought, plant diseases, and insect pests this year, the efforts of the cadres and peasant masses throughout the province have reduced the crop losses. Total grain output has reached 9.65 billion kg, which is higher than last year. Due to a reduction in the sown areas, cotton output is estimated only at 760,000 dan, below the target set by the plan. Output of other industrial crops is higher than last year. Sustained development has been recorded in forestry and animal husbandry. Total agricultural output value is estimated at 7.6 billion yuan, a rise of 4 percent over last year. The entire rural economic situation is good.

Industrial output value is estimated at 20.6 billion yuan, a rise of 9.8 percent over last year. The province completed 960 million yuan in capital construction investment, the same figure as last year. The province completed 850 million yuan in technological transformation investment, a rise of 11 percent over last year. As a result of taking stock of all projects under construction, progress on construction of key projects has speeded up, and more projects have been completed and put into production than last year.

The province has fulfilled its targets in commerce and foreign trade.

Generally speaking, the growth of the province's economy is steady. The main problems are: Total social demand is still too high; economic results are poor; and more losses are being made by enterprises.

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CSO: 4006/226

PROVINCIAL AFFAIRS

SHAANXI PLANNING MEETING SETS GOALS FOR 1987

HK280215 Xian Shaanxi Provincial Service in Mandarin 0030 GMT 28 Dec 86

[Text] A 6-day provincial planning conference concluded yesterday. The meeting held that the province has fulfilled its national economic plan relatively well this year and has made a good start in successfully accomplishing the Seventh 5-Year Plan.

The meeting held that the main tasks in Shaanxi's economic and social development in 1987 are, under the premise of improving economic results, to maintain an appropriate economic growth rate; to vigorously develop agriculture, especially grain production; to readjust the product mix and ease the contradictions between the product mix and social demand; to further develop foreign trade and tourism, and strive for a new level in income from exports and from non-trade sources; to continue to control total social demand; to readjust the investment structure under the premise of ensuring key construction work; and to keep total investment in fixed assets below the target set by the state.

In 1987 the province's total industrial and agricultural output value should reach 29.44 billion yuan, an increase of 6.8 percent over the estimate for this year; this should include a 4 percent rise in agriculture and a 7 percent rise in industry.

The meeting stressed that in next year's industrial production, the province should strive to increase output of products for serving agriculture, especially chemical fertilizer, farm machinery, plastic sheeting, fodder, and so on. The province should increase output of equipment required for the production of raw materials, oil, and electric power, and for key state construction projects. The province should also increase output of light and textile products, especially of brand-name and expensive goods, to meet the people's needs. Output of exports for earning foreign exchange should also be stepped up.

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CSO: 4006/226

PROVINCIAL AFFAIRS

SHANDONG HOLDS MEETING OF ECONOMIC DEVELOPMENT STRATEGY

SK220126 Jinan Shandong Provincial Service in Mandarin 2300 GMT 20 Dec 86

[Text] The Shandong Provincial Economic and Social Development Strategy Study Committee held its third meeting at Jinan's Nanjiao Guesthouse on 20 December.

Su Yiran, chairman of the committee, presided over and delivered the opening speech at the meeting. Li Changan, deputy secretary of the provincial party committee and governor of the province, made a speech at the meeting.

The main task of this meeting is to examine and discuss summary reports on four study subjects related to the Shandong provincial economic and social development strategy, including a study report on the guiding ideology of the Shandong provincial economic and social development strategy, a study report on the strategic goal of Shandong Province's economic and social development to the end of this century, a study report on the Shandong provincial agricultural structure and arrangements, and a study report on a program of Shandong provincial economic divisions and urban geographic distribution. These four reports are key parts of the 39 subjects studied over the past 3 years since the founding of the Shandong Provincial Economic and Social Development Strategy Study Committee.

Through discussions and consultations, the strategic programs in these four fields have been further substantiated and perfected. This has laid a good foundation for comprehensively and scientifically establishing a provincial economic and social development.

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PROVINCIAL AFFAIRS

SHANGHAI MAYOR JIANG ZEMIN INSPECTS MARKET

OW240816 Shanghai City Service in Mandarin 0100 GMT 24 Dec 86

[Text] As New Year's Day is approaching, industry, communication, and market supply work is very arduous.

Jiang Zemin, deputy secretary of the Shanghai Municipal CPC Committee and mayor of the municipality, visited workers and staff working on the industrial and communications front and the market yesterday afternoon.

He first visited the No 1 branch of the municipal industrial and communications company. After hearing a briefing by a responsible person of the branch on its business since the beginning of the winter, he had a discussion with nearly 100 workers and staff members. At the discussion, Mayor Jiang said: Workers and staff members on the industrial and communications front have been working hard. On behalf of the municipal party committee and the municipal government, I extend greetings to all workers and staff members on the industrial and communications front. I hope that traffic in the municipality is much congested, you will strengthen vehicle dispatching, serve people in a civilized way, ensure driving safety, and effectively carry out your tasks for this winter and the coming spring.

Then, Mayor Jiang visited a [name indistinct] store in order to acquaint himself with the supply of commodities on the market. Mayor Jiang said: New Year's Day and the Spring Festival are approaching. The municipal party committee and the municipal government are vigorously arranging the supply of commodities for the festival season. It is hoped that financial and trade comrades will make concerted efforts to organize the supply of commodities and do a good job in this regard in order to make it possible for all people in the municipality to spend a happy festival season.

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PROVINCIAL AFFAIRS

SHANXI GOVERNOR ON ECONOMIC PLANNING FOR 1987

HK220201 Taiyuan Shanxi Provincial Service in Mandarin 2300 GMT 21 Dec 86

[Excerpts] According to SHANXI RIBAO, at the provincial planning conference which concluded on 20 December, Governor Wang Senhao proposed that the province should get a good grasp of the following tasks next year, centering on the Seventh 5-Year Plan:

1. Attach importance to the agricultural foundation and vigorously develop grain production. In the future, some preferential treatment policies will be formulated to stimulate the peasants' enthusiasm for growing grain. We must also step up input in agriculture. We must further tap the potentials of the province's 21 million mu of stable and high-yielding land, and achieve relatively great growth in grain output.
2. Do a good job in energy construction. At present, we must get a good grasp of coal processing and conversion, and straighten out, transform, and improve the township and town coalmines.
3. We must speed up communications construction. Next year we must continue to do a good job in building 10 roads, 5 local branch railroads, and 13 coal [word indistinct] stations, to change the closed state of the province's mountain areas.
4. We must carry out technological transformation in 58 large and medium backbone enterprises. These enterprises should reach world levels of the late 1970's and early 1980's in not too long a time.
5. Improve education, science, and technology work. We must further step up transformation in five tertiary institutes including Shanxi University, and build three institutes including the Shanxi Economic Management College.
6. Do a good job in environmental protection work.

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PROVINCIAL AFFAIRS

SHANXI VICE GOVERNOR PROPOSES TASKS FOR ECONOMIC REFORM

HK240731 Taiyuan Shanxi Provincial Service in Mandarin 2300 GMT 22 Dec 86

[Text] According to SHANXI JINGJI BAO, after listening to a report given by the provincial structural reform office on plans for economic structural reform in the province next year, Vice Governor Wang Senhao recently pointed out that next year's reforms must further promote the development of productive forces and bring into full play workers' enthusiasm and enterprises' initiative in business operations. We are now carrying out reforms too slowly. We must particularly grasp the following tasks next year.

1. We must vigorously develop the collective economy, individual economy, joint stock economy, and township enterprises. We must make a breakthrough in this respect next year. We must adopt some policies and corresponding measures of encouragement and mobilize people in society to use their funds to develop the economy. Taxes on collective and individual enterprises should be 10 to 20 percent lower than those on state-run enterprises.
2. We must further enliven enterprises mainly by readjusting the ownership systems and business operations. We must give classified guidance. Enterprises that are of vital importance to the national economy and the people's livelihood must continue to implement the 35 regulations, properly institute the manager responsibility system, and firmly grasp the economic responsibility system and distribution system inside the enterprises. Small industrial enterprises must switch to other lines, be leased out, or be sold out to others. As this involves many problems, such as the financial system and cadres' remuneration, we must consider it gradually and refrain from rash and indiscriminate action. Except for some large and key ones, commercial enterprises must be run by collectives or individuals. We must take bigger steps in this respect. As commerce is too rigid at present, we must invigorate it quickly. We must deal with enterprises that have suffered losses for a long time according to different situations.
3. We must reasonably speed up the reform of the financial system; open up funds information channels, develop inter-bank borrowing, develop urban cooperatives, speed up the circulation of funds circulation, and create conditions to enliven enterprises.
4. We must put forth specific measures on reforming the economic structure.

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PROVINCIAL AFFAIRS

SHANXI GOVERNOR ARTICLE ON COAL PRODUCTION

HK210557 Taiyuan Shanxi Provincial Service in Mandarin 2300 GMT 19 Dec 86

[Excerpts] The 20 December SHANXI RIBAO frontpages an article by Comrade Wang Senhao entitled "Boost Coal Production Reserve Strength to Support the Whole Country's Economic Construction."

The article points out: To build Shanxi into a national energy, heavy, and chemical industry base and do a good job in building the Shanxi energy base is the requirement of the country's four modernizations drive and also of the effort to eliminate poverty and make the people rich in the province. As the country's energy base, Shanxi's task is extremely arduous and glorious. We must continue to regard the vigorous exploitation of coal and the building of the energy base as the strategic focus of the province's economic construction, and strengthen our coal production reserve strength, to make greater contributions to the country's construction.

To boost the province's reserve strength in coal production, we must continue to do a good job in constructing and improving large state-owned mines. However, even more work should be done to improve, straighten out, and upgrade township and town coalmines. The provincial party committee and government attach great importance to boosting the reserve strength of the township and town coalmines.

To boost the province's reserve strength in coal production, it is also necessary to step up communications construction to improve the capacity for shipping coal out of the province. We must also do a good job in the processing and conversion of coal by developing small metallurgical, coking, and building materials industries.

The article says in conclusion: In developing the processing and conversion of coal, we should establish as few state-owned enterprises as possible. In particular, such enterprises should, in general, not be established at county level. Instead, we should vigorously develop urban and rural collective enterprises. Practice has proven that little investment is required, the construction cycle is short, and quick results are yielded in this way. Hence, we should regard the development of township and town industry as a strategic policy decision in economic development. We will then be able to build the Shanxi energy base faster and better, and this base will display greater vitality.

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CSO: 4006/254

PROVINCIAL AFFAIRS

SICHUAN GOVERNOR DISCUSSES ENTERPRISE REFORM

HK210305 Chengdu Sichuan Provincial Service in Mandarin 2300 GMT 20 Dec 86

[Excerpts] Governor Jiang Minkuan pointed out at a provincial seminar on deepening enterprise reform, convened on 20 December, that the current reforms must be firmed up in terms of deepening enterprise reform and invigorating the enterprises. He particularly stressed that it is essential to invigorate large and medium state-owned enterprises whose development rate is rather slow. He said: The operational powers of the leaders of these enterprises are restricted by certain current provisions. We should adopt the operational responsibility system, the lease system, the system of issuing shares, and so on to separate ownership from operational powers and to ensure that the enterprises are fully invigorated.

Governor Jiang Minkuan demanded that the leading government departments at all levels [words indistinct] grasp of the following work in deepening enterprise reform and invigorating the enterprises: 1) Do a good job in ideological and political work, including changing people's concepts. 2) Do a good job in building the socialist markets, and promote lateral economic ties. 3) Pay attention to measures for coordinating reforms in industry and the cities with reforms in agriculture and the rural areas. 4) Set up a regional socialist insurance network. 5) Grasp typical examples, and organize pilot projects in reform.

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PROVINCIAL AFFAIRS

XINJIANG LEADER STRESSES ROLE OF COUNTY-LEVEL ECONOMY

HK260231 Urumqi Xinjiang Regional Service in Mandarin 1300 GMT 25 Dec 86

[Excerpts] Regional Party Committee Secretary Song Hanliang said at the regional rural work conference which concluded yesterday that county-level economy is an extremely important level of the national economy, with a very strong comprehensive nature. If we can get a good grasp of the focal point-- county-level economy--and invigorate the economy at that level, we will be able to promote ties between urban and rural economy, eliminate the discrepancies between urban and rural areas, coordinate urban and rural interests, and promote the common development of the entire urban and rural economy.

He said: The county is a department that directly commands township and village economy and other undertakings. It is closely linked to the masses. It is the point of contact of urban and rural economy and also of macroeconomy and micro-economy. The great majority of the region's population and of its minority-nationality population are concentrated at county-level and below. The performance of county-level economy has a direct bearing on the fundamental interests of the people of all nationalities in the region.

Xinjiang is a vast area with sparse population. The useable resources are extremely abundant. There are very few large and medium cities, and the small towns are very scattered. The radiating power of urban economy is small and its coverage is low. The counties in Xinjiang are small in population but large in area and rich in resources. They can basically all carry out independent economic activities. It is precisely for this reason that our economic work in the agricultural and pastoral areas should be based on the [words indistinct] the townships and villages as the backing. We should work to extricate each county from poverty, increase its economic strength, and make it financially self-sufficient. With the economy developed in every county and the people there affluent, there will be a firm basis for great economic development in the whole of Xinjiang.

Each county should first develop one or two leading undertakings based on its strong points or on undertakings that have the potential to become its greatest strong points. Its products should be competitive at home and abroad.

Comrade Song Hanliang said: The spark plan of the science and technology commissions should dovetail with the efforts of each county to exploit its strong-point undertakings. In developing its strong-point undertakings, each county should focus on developing small enterprises. The invigoration of county-level economy depends mainly on the establishment of medium and small enterprises, especially township and town enterprises.

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PROVINCIAL AFFAIRS

XINJIANG LEADER ENCOURAGES RUNNING RURAL ENTERPRISES

HK280231 Urumqi Xinjiang Regional Service in Mandarin 1300 GMT 27 Dec 86

[Excerpts] In his speech at the regional rural work conference, Comrade Song Hanliang pointed out: We must adopt still more favored-treatment policies to encourage science and technology personnel, including some able organ cadres, to go to the rural and pastoral areas to contract for and run township and town enterprises. We should allow them free mobility. We can relax the policies still more and make them still more flexible for those who are willing to go down and do this.

He said: The township and town enterprises are a main pillar of the region's rural cooperative economy, and an indispensable assistant to urban industries. They are the main means by which the peasants can get rich through hard work and by which the economic strength of the rural and pastoral areas can be increased. Xinjiang has a large area of farmland and a high proportion of industrial crops; it is possible to get rich from farmwork. However, with township and town enterprises, we can speed up the progress of extricating ourselves from poverty and getting rich.

He said: One way of solving the shortage of talent in the township and town enterprise is to bring it in from elsewhere by recruiting from other places and state-owned enterprises. Recruiting retired people is also possible. Another way is to base the effort on the region and to tap our internal potentials. There are plenty of talented people of various types in the urban areas; there are also large numbers of senior secondary school graduates awaiting employment. So long as the policies are correct, large numbers of talented people will move to the rural areas. Of course, we must also continually increase our investment in brain-power and adopt various ways to vigorously train the required talented people of all categories.

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PROVINCIAL AFFAIRS

XUE JU OUTLINES PLAN TO IMPROVE ENTERPRISES

OW212206 Hangzhou Zhejiang Provincial Service in Mandarin 1000 GMT 20 Dec 86

[Text] Xue Ju, deputy secretary of the Zhejiang Provincial Party Committee and governor of Zhejiang Province, said at a work conference of the provincial party committee on 20 December: We should make a bigger step up [to] seek a new breakthrough in further reforming and invigorating enterprises.

Xue Ju said: Since 1984 the State Council has successively issued a series of documents concerning giving more decision-making power and vigor to enterprises. The provincial and some city authorities have also formulated many specific provisions in this regard accordingly. However, a number of policies and provisions remain to be implemented, particularly the policies of expanding the decision-making power of large and medium-sized state-run enterprises.

Xue Ju said: We should seriously check to see which policies and provisions concerning enterprise invigoration have not yet been implemented, find out why, and adopt measures to improve the situation. We should actively study how to separate the ownership of an enterprise from its power of operation, and effect the separation. We should further promote lateral economic cooperation. Next year our work should emphasize developing enterprise associations, organizing the elements of production in an optimum way, and bringing into play the overall strength of enterprise associations. We should train according to plan a large number of socialist enterprisers who know how to operate and manage, have a pioneering spirit, and know how to handle correctly the interests of the state, the enterprises, and the workers and staff members.

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PROVINCIAL AFFAIRS

YUNNAN PLANNING MEETING SETS TASKS FOR 1987

HK240225 Kunming Yunnan Provincial Service in Mandarin 2300 GMT 23 Dec 86

[Text] The Yunnan Provincial People's Government recently convened a provincial planning conference in Kunming, which conveyed the spirit of the national planning conference and made arrangements for the draft plan for the province's economic and social development in 1987. Vice Governor Zhu Kui spoke on Yunnan's economic work for next year. He said: Next year the province must focus on the following six tasks:

1. Get a good grasp of reform and continually stimulate all reforms. Through reforms, we should mobilize the masses' enthusiasm still better, further emancipate the productive forces, and promote sustained, steady, and coordinated development of the national economy.
2. Grasp the foundation. Agriculture is the foundation of the national economy. This idea is particularly important in Yunnan, and there cannot be the slightest wavering over it.
3. Grasp financial revenue. This should be done by all levels and departments, not just by the financial departments. We must promote output of outstanding high-tax products, boost profit-making medium and small enterprises and enterprises earning foreign exchange from exports, and grasp work in large enterprises running at a loss.
4. Promote reserve strength. Stepping up technological transformation and the construction of key projects are the two great keys to boosting the province's reserve economic strength. Next year we must continue to control the scale of investment and ensure the capital and material needs of key construction projects and technological transformation.
5. Grasp the markets. We must establish and perfect a market setup, actively organize sources of supply, improve sales work, and maintain basic price stability.
6. Tackle the work of supporting poor areas.

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PROVINCIAL AFFAIRS

YUNNAN DEVELOPS URBAN, RURAL COLLECTIVE ECONOMY

HK261112 Kunming Yunnan Provincial Service in Mandarin 11:00 GMT 25 Dec 86

[Excerpts] A reporter has learned from a provincial conference on planning that one of the key points of the planned arrangements of our province in 1987 is to speed up the development of the urban and rural collective economy and to vigorously develop township enterprises to make a bigger step forward in the urban and rural collective economy of our province next year.

With a view to ensuring that a bigger step forward in the urban and rural collective economy will be made than this year, our province has planned to make arrangements for emphatically grasping well the development of four big industries next year:

1. It is necessary to make a breakthrough in developing the mining industry. Relevant departments at all levels are required to completely enforce the law of mineral resources and to fully rely on and organize the masses to develop mining at many levels, to form associations in many forms, to raise funds through many channels, and to carry out operation in many ways. Policies must be relaxed, leadership strengthened, and service provided well.
2. It is essential to vigorously develop the agricultural and sideline products processing trade and to lay stress on the development of the trades of processing food, handicraft articles, fodder, and tropical industrial crops.
3. It is imperative to develop the trades of construction and building material industry. We must strive to enhance the levels of design and technological installation and assembly.
4. We must speed up the development of tertiary industry and stress the development of the trades of communications, transport, catering, and service.

To speed up the development of the urban and rural collective economy, we must rely on policies, grasp technological training, and increase investments. The provincial authorities have planned that the amount of investment in the urban and rural collectives next year will be about 80 percent more than this year, that lateral ties must be developed, and that qualified personnel must be recruited and technology imported.

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CSO: 4006/226

PROVINCIAL AFFAIRS

ZHEJIANG'S WANG FANG ON ECONOMIC EFFECTIVENESS

OW220305 Hangzhou Zhejiang Provincial Service in Mandarin 1000 GMT 18 Dec 86

[Excerpts] Wang Fang, secretary of the provincial CPC committee, recently told a meeting: In doing economic work, it is necessary to do away with the outmoded theory that economic background is uniquely important. He sharply pointed out: In the past, we often ignored economic effectiveness and contributions to the state and society, while emphasizing economic background. A number of state-operated enterprises suffered tremendous economic losses due to poor management. However, they were still given preferential treatment, while at the same time, other enterprises with a different economic background were discriminated against.

Some businesses can be run more effectively and more successfully by individuals than by the state. Then, why don't we let individuals run such businesses?

He cited as an example the plastic film plant run by (Ye Wengui) in Kangnan County, and the state-run plastic film factory in Wenzhou City. Both these enterprises turn out plastic materials, and both of them have 60 workers each. In 1985 the former made a profit of 170,000 yuan, while the latter suffered a loss of 90,000 yuan. The former paid 70,000 yuan in taxes to the state, while the latter only paid 20,000 yuan. Workers in the former plant earned an average of 116 yuan monthly, while workers in the latter factory earned an average of 80 yuan. Which of the two enterprises is more conducive to socialism?

He called on the leadership at all levels and all departments to change those views and practices that are detrimental to the development of commodity economy.

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CSO: 4006/254

PROVINCIAL AFFAIRS

BRIEFS

QINGHAI PLANT MANAGER PROBLEMS--Governor Song Ruixiang recently enthusiastically urged entrepreneurs in the province to actively probe the question of separating operating and ownership powers in large and medium enterprises, and to invigorate these enterprises. Governor Song Ruixiang attended the second annual meeting of the provincial plant manager work research society on 24 December. When some plant managers mentioned that it is hard to be a manager these days, Governor Song said: It is indeed hard to be a manager. We must therefore strengthen the role of the plant manager work research society, to enable more people to understand what being a plant manager means. He also said: The government must continue to streamline the administration and delegate powers, to invigorate the enterprises. The current problem of cadres being unwilling to run enterprises and fleeing to the organs needs study. In the future, as the reforms deepen, the cadres are bound to flee into the enterprises instead. [Excerpts] [Xining Qinghai Provincial Service in Mandarin 2330 GMT 29 Dec 86] /8309

HENAN ECONOMIC, TECHNOLOGICAL COOPERATION--At a forum of directors of economic and technological cooperation offices from all prefectures and cities of the province, which concluded yesterday, Vice Governor Hu Tiyun said: This year the province has achieved marked results in promoting economic and technological cooperation and lateral economic ties have developed to a new stage. According to incomplete statistics, from January to November, the province had carried out economic and technological cooperation in some 2,700 relatively large projects and brought in some 230 million yuan of funds. The total volume of goods involved in the economic and technological cooperation amounted to more than 800 million yuan. After the operation of all the items of economic and technological cooperation, output value will increase by 1.92 billion yuan annually. There are now over 3,000 economic combinations of various kinds in the province. Over 10,000 enterprises have joined the combinations. [Excerpts] [Zhengzhou Henan Provincial Service in Mandarin 2300 GMT 21 Dec 86] /8309

SOUTH XINJIANG ECONOMIC IMPROVEMENT--Various departments, bureaus, and trades in Xinjiang Region have vigorously helped their counterparts in three prefectures and autonomous prefectures in South Xinjiang to get rich. The per capita income of 220,000 poor households in the three prefectures and autonomous prefectures

of South Xinjiang this year recorded an increase of 70 yuan over last year. The civil affairs department has raised 6 million yuan in funds to set up 1,700 economic collectives to help the poor while the communications, transport, petroleum, coal, and electric power trades have vigorously supported the three prefectures and autonomous prefectures in energy resources, electric power, road construction, and so on. The average per-mu yield of ginned cotton in 1.2 million mu of cotton fields is 120 jin and 13 percent more than last year. The Regional Science and Technology Cadre Bureau has allocated 520 university graduates and 320 secondary vocational school graduates to the three prefectures and autonomous prefectures so as to alleviate the tense situation of a shortage of qualified personnel there. This year, the region has supplied the three prefectures and autonomous prefectures with 60,000 tons of chemical fertilizers, which exceeded the quota by over 100 percent, basically guaranteeing the needs for sowing winter wheat. [Summary] [Urumqi Xinjiang Regional Service in Mandarin 1300 GMT 22 Dec 86 HK] /8309

SICHUAN SUPPORTS REFORMS--(Qi Yang), director of the Provincial Economic Structural Reform Office, told our reporter that the office recently carried out a survey of the masses' views of reforms. The survey was conducted among 5,000 cadres, staff, and workers of various kinds of enterprises in 20 cities and prefectures. The results of the survey show that the broad masses have in varying degrees started to accept and are gradually adapting to the production rhythm of commodity economy. The reforms are supported by the broad masses. As for the current problems in reform, 90.38 percent of those surveyed still agreed with the reforms and said that despite the problems, this was better than no reform at all, and 71.84 percent said it did not matter if the [words indistinct] temporary loss so long as the reforms are done well. Of those surveyed, 96.8 percent held that the masses' living standards have improved in recent years, and 30.4 percent said that the improvements have been notable. A total of 76.78 [as printed] said that it is essential to implement the plant manager and director responsibility system. This shows that people want this system, and there is a broad mass base for it. [Text] [Chengdu Sichuan Provincial Service in Mandarin 2300 GMT 21 Dec 86] /8309

SHANXI ECONOMIC PROGRESS--According to SHANXI RIBAO, this year the province's economy has basically extricated itself from the overheating of the previous 2 years, and a benignant cycle of steady advance has started to emerge. Most of the major economic targets can be fulfilled. It is estimated that the total social output value will overfulfill the plan by 2.6 percent, increasing by over 5 percent over 1985. It is also hoped that national income will fulfill the plan, showing an increase of about 4.5 percent. It is estimated that the province's industrial output will rise by 7.2 percent over 1985. The province reaped a bumper summer grain harvest. Wheat output set a new record. Total summer grain output exceeded 3.1 million tons, an increase of 3.9 percent over 1985. This included wheat output of 3,057,000 tons, a rise of 3.6 percent, and a record. [Excerpts][Taiyuan Shanxi Provincial Service in Mandarin 2300 GMT 26 Dec 86 HK] /6662

SHANDONG ECONOMIC DEVELOPMENT STRATEGY--The third meeting of the Shandong Provincial Economic and Social Development Strategy Study Committee ended on the afternoon of 26 December. During the meeting, specialists and scholars from

different places throughout the country and from various departments in the province put forward four opinions on the province's economic and social development strategy of developmental and consultative significance which play a greater role in making the people rich and Shandong prosperous. In his summary speech at the meeting, Su Yiran, chairman of the provincial economic and social development strategy study committee, called on all fields of society to pay attention to the province's economic and social development strategy study and to pay attention to both short-term and long-term interests and proceed from the actual conditions of Shandong to learn the law of economic and social development and formulate accurate targets, principles, and policies. [Text] [Jinan Shandong Provincial Service in Mandarin 2300 GMT 26 Dec 86 SK] /6662

SICHUAN ENTERPRISE REFORMS MEETING--The provincial seminar on deepening enterprise reform, convened by the Provincial Party Committee and Government, concluded in Chongqing on 26 December after 1 week in session. The meeting proposed that the focal points in urban economic reform next year are to deepen the enterprise reforms and invigorate the enterprises. The meeting held that in light of the province's actual conditions, next year it is necessary to institute a variety of economic contract responsibility systems and go all-out to separate enterprise ownership from operating powers. The province must organize a number of enterprise pilot projects. [Excerpts] [Chengdu Sichuan Provincial Service in Mandarin 2300 GMT 26 Dec 86 HK] /6662

BEIJING FULFILLS ECONOMIC TARGETS--Beijing, 22 Dec (XINHUA)--Beijing Municipality has fulfilled the main targets of its national economic plan in the first year of the "Seventh 5-Year Plan," announced Vice Mayor Han Boping at a New Year reception for Chinese and foreign reporters held by Mayor Chen Xitong this evening. Han Boping said: Compared to 1985, Beijing Municipality's gross social output value rose by 6.9 percent. Its total industrial output value increased by 3.3 percent. Its national income grew 7.9 percent. Social commodity retail sales jumped 13.4 percent. And the per-capita urban income soared by 15.7 percent in gross terms, which still represented a net increase of 8.1 percent after deducting for the rise in commodity prices. Total exports are estimated to reach US\$700 million, a record figure in the municipality's history. Han Boping added: As of now, Beijing Municipality has approved the setting up of more than 160 enterprises, which include Sino-foreign joint ventures, cooperative undertakings, and enterprises wholly-owned by foreign firms. Total investments amounted to US\$2.04 billion, topping all other major cities in China. More than 1,100 contracts have been signed for importation of foreign technologies, with a total amount running to US\$1.16 billion. Presently, Beijing Municipality has drafted 30 measures to encourage foreign investment. It has also planned to sponsor major economic and trade talks next spring. [Text] [Beijing XINHUA Domestic Service in Chinese 1527 GMT 22 Dec 86 OW] /6662

CSO: 4006/226

FOREIGN TRADE AND INVESTMENT

CHINESE SEEK JOINT VENTURES FOR ROBOT PRODUCTION

Frankfurt/Main FRANKFURTER ZEITUNG/BLICK DIE WIRTSCHAFT in German 10 Dec 86
p 2

[Article by Peter Odrich, Hong Kong: "China Planning Own Robots. Close Cooperation With Foreign Firms Sought"]

[Text] When the production of robots was first proposed in China in 1972, the political leadership was quick to say no. Opponents argued that the country did not need robots since so many human operatives were available. Major changes have taken place in the meantime. In Shenyang, an industrial city in the northeast, construction has begun on a research and development center for so-called second generation robots. Chinese leadership is today counting upon an increase in the country's industrial productivity through their use.

The Shenyang facility is scheduled for completion in 1988 and will consist of initial test production centers and four laboratories. Designated as the Chinese Academy of Sciences Shenyang Institute of Automation, the center will concentrate on the development of underwater robots for oil extraction, so-called intelligent robots and defices which can adapt independently to various operating conditions.

It is also hoped, according to sources in Hong Kong, that foreign firms will cooperate with Chinese plants in joint ventures for the production of industrial robots. The PRC is aiming primarily at domestic markets with such production. Exports, though of secondary priority, are also envisioned. In the view of foreign firms in Hong Kong, China is definitely in a position to produce top quality robots. There is also a substantial demand for them in the PRC.

Currently, however, few plants in the PRC have production facilities capable of making effective use of robots. In this regard, a consultant and training role has also been assigned to the new center at Shenyang. Initial applications are planned in the areas of coal extraction and motor vehicle enamelling. Reasons for this are much the same as those found in Western countries: workers are to be spared heavy and dangerous work.

The new Shenyang Institute of Automation is already cooperating with the U.S. firm of Perry Offshore, Inc, and intends to integrate this partner's

technologies for the development of underwater robots. According to the agreement between the two partners, China will be able to use technology developed by Perry for a fifteen-year period and the products will carry the Perry trademark. The underwater robots will be employed in oil exploration and in dam construction. The devices will be capable of laying oil pipelines and of undertaking tasks which previously had required thousands of laborers.

China expects to be able to export the first underwater robots as early as 1988. In addition to the technology transfer from the United States, China will also seek to import robotics technology from Europe and Japan. Japan, however, has shown itself so far to be reluctant in this regard. On the other part, the PRC, because of its current shortage of hard currency, does not intend to import any robots of the so-called first generation. Instead, plans call for concluding cooperation agreements with foreign firms which will make it possible to produce equipment of this kind in the PRC.

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ECONOMIC ZONES

SHANGHAI ACTIVE IN INTERNATIONAL MONEY MARKET

Hong Kong CHING-CHI TAO-PAO [ECONOMIC REPORTER] in Chinese No 40, 6 Oct 86
p 28

[Article by Liu Peide [0491 1014 1795]: "Shanghai Raises Capital in the International Money Market"]

[Text] Mayor Jiang Announces New Policy

Shanghai Mayor Jiang Zemin [3068 3419 3046] recently announced that the State Council has given approval for Shanghai to raise and borrow capital in the international money market so as to improve the infrastructure of the city, intensify industrial technological transformation, increase export exchange earnings, and develop tertiary industries and tourism.

Jiang Zemin said that in the past Shanghai chiefly adopted the method of absorbing the direct investments of foreign business and introduced Chinese-foreign joint ventures and cooperative ventures as well as foreign-owned enterprises. At present, besides continuing to absorb the direct investments of foreign commerce, Shanghai will adopt the practice of directly raising capital in the international money market. This will include using inter-governmental loans and World Bank loans, issuing bonds abroad, and absorbing international commercial loans, etc. Absorbing foreign capital through numerous channels and in many different forms means that Shanghai's economic development will be even more closely tied to the international market and that Shanghai is heading along a circular economic path within the international sphere. For many years, enterprise capital has depended on state appropriations. Later, some low interest loans from state banks were used. From now on, however, increasing use will be made of international capital funds. The change in the source of capital will certainly spur changes in operational form. If enterprises undertake this risk they must be capable of handling the risk and strive for growth through competition. This is good training for enterprises in improving their ability to meet any contingency and improving their business management competency in a commodity economy. If we are to breath new life into enterprises then it is necessary for enterprises to have such qualities.

The Objective Is To Save Time

Mayor Jiang Zemin said that the objective in absorbing foreign capital through various channels and means is to save time, accelerate the improvement of Shanghai's investment environment, and strengthen the staying power of Shanghai's vigorous economic development. For instance, numerous problems remain in the infrastructure of the city of Shanghai. The overloaded conditions have become critical and already seriously affect the growth of economic construction. It is necessary to invest much capital if we are to properly alleviate these pressing problems. However, at present, the state cannot give much capital to Shanghai for alleviating so many problems remaining in the infrastructure. Also, since the direct economic benefits of infrastructure projects are few, it is difficult to adopt the method of direct investments by foreign businesses to absorb foreign capital. Consequently, it is necessary to adopt the method of directly raising funds to increase construction of the infrastructure. In this way, although it would be necessary to accept high interest rates, we can save time and expedite progress in the modernization of the city.

Several Key Projects

As this reporter learned, over the past 2 years the infrastructure of Shanghai has been considered a key point in construction. Changes have already begun: Shanghai's chief land access--the new railway passenger terminal being built at full speed will be completed and in use by the end of next year, when 72 trains daily will transport 200,000 passengers. Shanghai's international airport, the Hongqiao Airport, has a new airport waiting area which accommodates over 1,200 people every hour. It replaces the old waiting area which could only hold 280 people per hour. The main road from Hongqiao Airport to the center of the city has already been expanded to a level highway 40 meters wide and 4.6 km long. Construction of the water diversion project on the upper reaches of the Muangpu River was begun last year at a cost of over 1 billion yuan. A second tunnel which crosses the river is now being built in order to expand the east side of the river. A modern gasworks with a daily output of 2 million cubic meters of gas is starting to tower over the area. Before the end of the year the first phase of the project will be partially put into operation and supply 300,000 cubic meters of gas per day. On this occasion the State Council approved of Shanghai's raising funds on the international monetary market which would be applied to five key projects for improving the city's infrastructure: the subway, a major bridge over the Huangpu River, further expansion of Hongqiao Airport, urban sewage confluence control and the expansion of telecommunications.

Capacity to Repay Funds and Specific Policies

When discussing the ability to repay foreign loans used for urban construction, Mayor Jiang Zemin said that this entire portion of foreign capital is raised, borrowed, and repayed by Shanghai alone. The procedure is for Shanghai to "lump together" projects involving the urban infrastructure, the transformation of industrial technology, tertiary industries, and tourism regardless of whether they earn exchange, are profitable, or show results

early. Shanghai must consolidate accounting, start operations in coordination, and assume responsibility for coordinating repayments. To assist Shanghai in repayment of funds, the state has already approved specific policies and measures for Shanghai, including expanding the right to examine and approve projects and giving preference in retention profit and foreign exchange.

Jiang Zemin also said that even while directly raising funds, it is still necessary to accelerate the absorption of the direct investments of foreign businesses. Shanghai is attempting to create a suitable environment for foreign business investments in two ways. One is to develop the superiority of its inexpensive labor force and the low costs of various other expenditures so that the costs of products manufactured by foreign investment enterprises are reduced. This will improve their ability to compete on the international market. The other is to make the operations and management of foreign investment enterprises according to common international practices. Shanghai will create conditions for them to operate enterprises with scientific control and high efficiency. Jiang Zemin said that the specific measures in these areas are being drawn up and their basic points are as follows:

1. To give special preference in income tax exemptions, land-usage fees, and rapid depreciation to foreign investment enterprises with exchange-earning exports.
2. To improve regulations concerning the wage standard in foreign investment enterprises, the principle being to lighten additional burdens of the enterprises and to appropriately increase the real income of staff and workers.
3. To provide support to foreign investment enterprises through circulating capital loans and give equal treatment to state-run enterprises.
4. To help foreign investment enterprises resolve temporary problems in the balance of foreign exchange. Under the management of foreign exchange control departments, launch foreign exchange readjustment of currency exchange among foreign investment enterprises.
5. To give preferential use to products which must be imported into China and to all goods already batch-processed by foreign investment enterprises which are basically up to the quality standards of equivalent foreign products as well as to goods whose prices and deadline for delivery meet demands. Production must replace importation. After these goods have been checked over and reports submitted to the relevant state departments, they must be included on the list of controlled imports.
6. To help open up channels for the supply of raw materials to foreign investment enterprises and to propose setting up a material supply company especially for foreign investment enterprises.
7. To earnestly guarantee the autonomy of foreign investment enterprises in recruiting and dismissing staff and workers.

8. To improve the guidance offered by government departments to foreign investment enterprises and to establish special agencies to coordinate ties among various departments and to promptly help foreign investment enterprises in resolving problems.

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CSO: 4006/82

ECONOMIC ZONES

EFFECTS OF RMB DEVALUATION ON SHENZHEN DISCUSSED

Hong Kong CHING-CHI TAO-PAO [ECONOMIC REPORTER] in Chinese No 40, 6 Oct 86 p 30

[Article by Pan Jun [3382 1498]: "Devaluation of the RMB Exchange Rate and the Shenzhen Economy"]

[Text] On 5 July, China announced the devaluation of the RMB foreign exchange rate by 15.8 percent. This development was closely followed by those concerned both within China and abroad. It is widely believed that this measure will benefit foreign economic trade.

Shenzhen, being located in the middle of two large markets, one domestic and one foreign, is influenced by two price systems. In addition, RMB, exchange certificates, and Hong Kong dollars all coexist in Shenzhen as does the phenomenon of list prices for foreign exchange, adjusted prices, and black market prices all playing a role in the Shenzhen market. Thus, the impact of the devaluation of the RMB exchange rate is quite complicated. The principal effects will be discussed separately below.

Industry

1. The devaluation is advantageous to enterprises which give priority to exporting their products, particularly enterprises which primarily make use of local materials to manufacture products which are then sold abroad. For instance, 90 percent of the raw materials in a certain silk clothing plant are bought locally and all their products are exported. To date, there has been no increase in the cost of domestic raw materials so their profit rate will double and redouble. Even if the cost of raw materials rises in the future due to fluctuations of RMB, this plant may still make a profit. However, it is unfortunate that there are not more enterprises of this kind.

2. It is advantageous to import processing industries. In the first half of this year the fees collected by import-processing industries increased 23 percent over the same period last year and it is estimated that during the second half of this year this fairly high level will be maintained. This is chiefly influenced by factors such as the poor domestic market for some industrial products in the special zones and the revaluation of the yen. The devaluation of the RMB exchange rate will be a boost to enterprises kept going through painstaking effort.

3. Devaluation will be disadvantageous to enterprises that manufacture products primarily for the domestic market. Although certain enterprises make substantial use of raw materials from the interior, due to the fact that their products are geared to the domestic market, the production cost of the imported portion of the raw materials has been increased. For instance, 75 percent of the tape recorder components manufactured by a certain electronics plant in China and, according to regulations, may all be sold on the domestic market. However, since 25 percent of the components are imported and cost more and since there may also be a price increase for some components made in China, production costs will increase 5 to 10 percent. It cannot be denied that this is a blow to the aforementioned enterprise since it can only maintain a profit rate of about 8 percent. At present, the tape recorder market in the interior is already saturated and not only can the market prices of the goods not be raised due to the increased production costs, the enterprise is also faced with the problem of having to reduce prices so as to maintain sales.

In addition, there are joint ventures which rely chiefly on imported raw materials. They must pay out a fair amount of foreign currency in wages and foreign profits. Therefore, the cost of products for sale on the domestic market has increased even more dramatically. For instance, 80 percent of the components for color television sets made by a certain television plant must be imported yet, according to regulations, it is difficult to raise the prices of those sold domestically. The reasons are that the state has placed limits on the retail prices of color television sets and that consumers in the interior will not accept a higher price. Thus, the RMB selling price of television sets sold domestically by this plant cannot be increased. Moreover, it is also necessary to reduce the foreign currency selling price by 10 percent to hold the relatively stable market.

Agriculture

The marketability and export rate of Shenzhen's agricultural products are quite high and not much foreign exchange is required. They are the direct beneficiaries of the devaluation of the RMB exchange rate. In 1985, for example, the exchange earned from exported agricultural products in Shenzhen constituted 33.1 percent of the exchange earned from exported industrial and agricultural products during the same year. This year agriculture in Shenzhen has once again made great strides. Even more gratifying is the fact that the peak periods for harvesting and exporting major export products both occurred during the second half of the year, just in time to take advantage of the devaluation of the RMB exchange rate. Whenever those in the agricultural sphere mention the current state and future prospects for agriculture in Shenzhen, they express boundless confidence.

Commerce, Trade and Tourism

Following the devaluation of the RMB exchange rate, the retail and wholesale prices of major imported commodities in the various markets of Shenzhen were readjusted accordingly. The original RMB and exchange certificate listed prices were either converted into the listed price for Hong Kong dollars according to the exchange rate prior to adjustment or the RMB and exchange certificate listed prices were increased according to the exchange rate

following devaluation. It cannot be denied that this has been a real boost to commerce in Shenzhen which had been in a slump. According to custom, July has usually been the peak selling period, however, the total volume of retail sales for social commodities throughout the city has only increased 0.3 percent compared to that of June. The main reason being that the total volume of commercial retail sales has not only not increased, on the contrary, it has decreased somewhat since June. Thus, the large increase in the volume of retail sales in tourist and food industries has leveled out.

As for foreign trade, the sudden increase in import costs has led to the suspension of purchase and sale contracts. In addition, due to the devaluation of the exchange rate, the prices of certain exports have been increased to counter affects on purchasing. According to the calculations of several foreign trade enterprises, the cost of earning foreign exchange for exports in foreign trade during the second half of the year will increase 5 to 10 percent.

All the various enterprises involved with tourism generally report that the tourist business is doing well. For instance, in a certain enterprise involved in tourism, the amount of business in July grew 13.5 percent over that in June. The volume of business in several food and lodging industries that are closely linked to tourism increased substantially. Several well-run bars and restaurants report that the volume of business in July grew 20 to 30 percent over that in June. They have profited from both the arrival of the peak tourist season and the devaluation of the RMB exchange rate. If the weather and other factors had not played a role, the situation in July would have been even better.

9864/9716

CSO: 4006/82

SHANGHAI STOCK MARKET GROWS RAPIDLY

Hongkong MINGPAO in Chinese 19 Sep 86 p 29

[Article by correspondent Li Gucheng [2621 6253 1004]: "Studying Capitalist Methods for Accumulating Capital; Shanghai Begins Issuing Stock in State Run Enterprises; More than 100 Million Yuan in Shares Have Been Issued on the Market"]

[Text] Stocks for accumulating capital are selling very well at Shanghai. As of the first 10 days of September more than 790 companies had issued stock worth over 100 million yuan.

Receiving the most attention was the permission given 18 September 1986 to the state-run "Shanghai Electric Vacuum Co." to issue stock for accumulating capital on the Shanghai stock market by the Shanghai branch of the Bank of China, making it the first state-run enterprise to issue stock on the Shanghai stock market; other state-run enterprises are preparing to issue stock.

The many collectively-owner enterprises issuing stock have make stock issues routine. As of the first 10 days of September, 749 Shanghai enterprises had issued stock, either within the company or on the open market, to accumulate capital. The first state-run enterprise in Shanghai to receive permission to issue stock is the "Shanghai Electric Vacuum Co." This company is selling stock to people within the company and on the open market so that anyone can buy a share. The total value of this stock issue is 40 million yuan, the greatest amount of stock issued by any one company since the Shanghai stock market opened. The CPC, to promote economic reform, permits the use of the mercantile method of issuing stock to accumulate capital. Heretofore, however, only collectively-owner enterprises have issued stock. In all of China, only three state-run enterprises in Guanddong have issued stock. The Shanghai Electric Vacuum Co. is the fourth state-run enterprise in the entire country to issue stock. The Shanghai municipal government still has a conservative attitude on issuing stock. Many people disagree in particular stock issues by state-run enterprises. Some believe that laws should be established to ensure that the socialist system of ownership does not change and to prevent socialist enterprises from changing into capitalist enterprises. However the serious shortage of circulating capital and the need to invigorate enterprises has persuaded the Shanghai government to permit

state-run enterprises as well to issue stock as an experiment. A source in the Shanghai branch of the Bank of China reveals that other state-run enterprises are preparing to issue stock.

Stock has been issued in privately run enterprises in Shanghai since the beginning of 1985. The first company to issue stock, the "Shanghai Yenzhong Industries Co.," issued 100,000 shares at 50 yuan a share. Later many township, and town enterprises issued stock. Today the gross value of the stock issued exceeds 100 million yuan.

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AGRICULTURE

AGRICULTURAL LOANS INCREASED

Urumqi XINJIANG RIBAO in Chinese 21 Jul 86 p 2

[Article: "Xinjiang Agricultural Loans Tending To Be More Appropriate This Year: Loans Granted in Timely Manner; Loans Intended To Support Expanded Agricultural and Livestock Production Increased; Scope of Loans Geared to Ordinary Farm Households Expanded"]

[Text] According to reports of the Xinjiang Autonomous Region branch bank of the China Agricultural Bank, things are going well this year in granting agricultural loans in the autonomous region, and the distribution is tending to be more appropriate. Agricultural banks and credit cooperatives at all levels generally are serious about applying funds to achieve results.

The autonomous region branch bank of the China Agricultural Bank and the credit cooperatives in the different localities granted a total of 687 million yuan in agricultural loans of various types in the first 5 months of the year. In administering the loans, we have overcome some of last year's erroneous tendencies. Loans were granted more or less in accordance with the farming season; in general, they were concentrated after the beginning of spring cultivation, which effectively promoted agricultural production. Loans this year also are tending to be more appropriate. Various localities are rigorously implementing a credit-fund policy and a system of examination and approval. As a result, although the amount of agricultural loans granted throughout the region in the first 5 months of this year is 158 million yuan less than for the corresponding period last year, the elimination of last year's inappropriate loan means there has been an increase this year over last year in loans actually used to support expanded agricultural and livestock production. Take the change in the loan mix for contracting households throughout the region in the first 5 months as an example: loans to agricultural households amounted to 54.8 percent, which was a 12.6-percent increase over the same period last year; loans to industrial, commercial, and other economic households amounted to 23.6 percent, which was a 9.5-percent decrease compared to the same period last year. To ensure the timely planting of what and cotton in Kashi Prefecture, 44.3 percent of the farm loans granted by the agricultural banks in the first 5 months of the year were for improved seed, chemical fertilizers, fuel and petroleum products, and plastic sheeting for covering the ground, which was a 13.4 percent increase over the same period last year. In addition, so far this year we essentially have not witnessed the situation

where large agricultural loans in various localities have gone to the large households; rather, we have expanded the scope of loans geared to ordinary households. Surveys for the first 5 months of the year of the scope of loans to farm households in Yanqi Hui Autonomous County show that farm households receiving loans increased from 50 percent of the total number of farm households last year to 78 percent.

12513/8918

CS0: 4005/005

AGRICULTURE

NEW PROVISIONS FOR COTTON PROCUREMENT OUTLINED

Chengdu SICHUAN RIBAO in Chinese 21 Aug 86 p 1

[Article: "Provincial Government Has New Cotton Procurement Provisions; Designed To Protect Interests of Cotton Farmers and To Halt Incorrect Tendencies"]

[Text] This year cotton procurement departments in the various localities of Sichuan Province will adopt effective measures which will make the peasants very enthusiastic about selling cotton to the state.

The provincial cotton work conference held in mid-August requires a) that various localities continue to pursue the policy of procuring 60 percent of the cotton at the list price and 40 percent at the added price, and of issuing a bonus of 125 kg of standard chemical fertilizer for each 50 kg of ginned cotton sold to the state, and b) that they conscientiously implement the new provisions handed down this year by the provincial government. The provisions include: 1. The state will make a 5-yuan cotton production support payment to the cotton farmers for each 50 kg of cotton it agrees to purchase, for use prior to the production season; 2. For each 50 kg of cotton in classes 1 through 7 sold to the state, a 4-yuan subsidy will be paid to make up the difference with the grain price; 3. A 10-yuan extra-price quality subsidy will be granted for each 50 kg of machine-spun cotton of class 1 through 4 sold to the state. The provincial governmental policies outlined above will all be carried on into 1987, except for some modification in the way production support payments are implemented. There may be adjustments in the amount of purchases agreed upon with the cotton-growing households, and payments to the cotton farmers for the actual amount of cotton sold to the state will be calculated in accordance with the relevant added-price ratio; contracts must be concluded for cotton which has been planted, and which is not yet covered by contract; contracts which have been concluded for which cotton has yet to be planted must be canceled. The various support funds must be granted and recalled in full. Each procurement station must make things as easy as possible for the cotton farmers. We must plug various loopholes, check incorrect tendencies, rigorously curb and address illegal acts, and insure that cotton procurement assignments are completed.

12513/8918

CSO: 4007/005

AGRICULTURE

WAYS TO IMPROVE CITRUS CIRCULATION LISTED

Chengdu SICHUAN RIBAO in Chinese 25 Sep 86 p 2

[Article: "How To Maintain Smooth Circulation of Abundant Citrus Crops; We Must Improve Product Quality, Continue To Implement Multichannel Circulation, Have a Good Concept of Pricing Levels, and Expand Processing, Storage and Market Sales of Fresh Citrus]

[Text] This year's citrus harvest is going to market. This year, Sichuan has had outstanding citrus production. Because of wind, rain, and other natural catastrophes, a few citrus-producing areas experienced decreases in production. Yet the province as a whole had generally stronger management work, many young trees began to yield fruit and, according to early estimates, Sichuan's citrus output this year could exceed 650,000 tons, an increase of about 15 percent over last year.

How do we achieve abundant production and a smooth flow of goods? We will make a simple analysis based on Sichuan's past circumstances and on changes this year on the domestic market.

1. We must correctly analyze the market's production and marketing situation, focus on raising product quality, and competently manage purchasing and sales work. Sichuan's citrus output has increased in the past few years, yet quality has decreased, and this is clearly manifested through early harvesting. This is not at all advantageous for expanding sales and establishing a stable market. This year, apple production in the north was about the same as last year, but citrus and banana production in the south increased greatly, and marketing areas will have tremendous room for selection with regard to variety, quantity, quality, and prices, with quality being the main factor in competition. Sichuan's citrus sales should suit these changes in the market. Sichuan must comprehensively strengthen quality control lest a passive situation occur. In raising the quality of citrus, it is of utmost importance to harvest at the proper time. Concerned departments in production regions can proceed realistically, set the proper harvesting times and corresponding measures according to variety, including technical guidance, and make sure that producers and managers jointly observe the measures and guidance. In addition, purchasing units and individuals should select, clarify, and package according to standards, and make purchases and sales by grade. When conditions permit, production areas should expand the use of paper-container packaging and reduce losses resulting from spoilage.

2. We should continue to implement an "open, stimulating" policy and circulation system. The reform of Sichuan's citrus circulation system has been in effect 2 years, and experience has proved that implementing a policy of open prices, free sales and multichannel circulation is in complete accord with the requirements for the development of the citrus commodities economy, and has aroused the enthusiasm of the growing, trade, and processing industries. We should continue to implement this policy in 1986, and all prohibitions restricting the transportation and sale of citrus must be canceled. This is a bumper year for citrus, and we should make an extra effort with regard to circulation. We should encourage and support various forms of horizontal economic ties and advocate joint management in various forms that cut across regions and departments between agriculture and commerce, agriculture and industry, commerce and commerce, and between agriculture, industry, and commerce, and reduce the number of links as much as possible. Besides the small amount of development funds that must be collected in accord with provincial policies, no level or department should receive any type of expense for any reason, or else sales will be hindered. Anything that was done in this manner in the past should definitely be redressed this year.

3. We must have a firm understanding of pricing scales, and maintain a relative evenness in the level of prices. Implementing guiding prices and coordinated prices for citrus helps promote production, expand circulation, balance supply and demand, and guide consumption, and this year we will continue this practice. The goal of carrying out guidance prices is to give equal consideration to the respective advantages of production, management, processing, and consumption. We must realize outstanding quality at a good price, and must suit the changing needs of the market. Based on the lessons learned from a few of Sichuan's "hot-selling" special agricultural sideline products, we must prevent price increases resulting from blind competition.

4. We must actively and competently manage processing, and storage, as well as supply to cities within Sichuan. Citrus processing has already become a mainstay of Sichuan's food industry. The necessary raw materials are becoming increasingly abundant, and each area must unify planning and give priority consideration to export canning and large and medium-sized processing factories. Each producing region should sufficiently calculate this year's situation in orange sales, pay close attention to market trends, and should organize management departments and fruit farmers to expand storage, and prevent overstocking and spoilage for that portion of fresh fruit that is not completely sold and processed during peak market periods. Chengdu, Chongqing, and other large and medium-sized cities must focus on arranging market supply, and they must both stimulate citrus circulation and meet the needs of urban people. Agricultural trade centers and wholesale markets must play a role in taking in and sending out citrus, and provide good service in smoothly circulating abundant citrus crops.

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CSO: 4007/48

AGRICULTURE

IMPROVED CITRUS EXPORTS FOR SICHUAN URGED

Chengdu SICHUAN RIBAO in Chinese 9 Oct 86 p 2

[Article: "In 1986, Requirements Were Raised for Citrus Exports' Plant Quarantine, Amount of Remaining Fertilizer, and Varieties and Sizes of Fruit; Choices Must Be Expanded, Appropriate Measures Must Be Adopted and Quality Improved in Order To Adapt Sichuan's Citrus Exports to the Demands of Foreign Markets"]

[Text] Citrus is one of Sichuan Province's dominant crop industries. In 1985, the province's total output of citrus exceeded 570,000 tons. This year it is estimated that output could exceed 650,000 tons. Citrus is also one of Sichuan's largest export products with a 35-year history of exports. Last year citrus exports totaled 14,900 tons, earning more than \$7.5 million, among which 11,400 tons were exported to the Soviet Union. With regard to conditions in international markets, improving quality is the key to expanding citrus exports.

At present, trade protectionism is rampant throughout the world. Barriers are more oppressive toward the exports of primary products by third world nations. With a drop in prices and steadily rising demands for technology and quality, trade in fresh fruits also falls into this category. At present, the price for citrus in international markets is still falling and is not increasing, and the standard requirements for fruit quality are being raised year after year. In developing China's citrus sales, we require new varieties, outstanding quality of the inner fruit, complete seedlessness, a shape that varies by no more than about 15 percent, appropriate sweetness and acidity, and for the taste of the fresh fruit to be sweet, fragrant, delicate, and crisp. Some of Sichuan's production of sweet oranges is aging, thick skinned and full of seeds, as well as a thick tart flavor. They do not sell for a high price in Hong Kong and Macao. Their most important export market is Siberia in the Soviet Union.

Under the influence of international markets, the Soviet Union's standards and criteria for importing citrus from China are increasing with each passing year. The following are some of the most important requirements and changes.

1. Plant quarantine. In 1984, the Soviet Union's plant quarantine was targeted at one variety; in 1986, the target was increased to six varieties. As a result, we must vigorously prevent and cure the large tangerine fruit fly, the secret tangerine leaf moth, and the festering-ulcer disease tangerines.

2. Reduce fertilizer residues. In 1984, there was no need, but in 1985 restrictions were stipulated for methyl tuo bu jin [2094 1580 3160] and 20 other types of fertilizer residues. In 1986, contracts stipulated the adoption of international inspection standards, and restrictions on fertilizer residuals were extended to more than 72 varieties which includes almost all commonly used fertilizers. Hence, in this last stage of managing citrus, we must strictly implement the restrictions on fertilizers. We must do our best to adopt agricultural measures and to adopt methods to prevent and control biological diseases and diseases in physical chemistry in order to control citrus plant diseases and insect pests. After the fruit is harvested, we must also cautiously manage and meticulously organize the handling of preservatives. The concentration of methyl parathion and duo-jun-ling [1122 5497 7227] has been inappropriately high. Thus, this year all citrus exports will be inspected for damage by the Provincial Import and Export Commercial Inspection Bureau, and any citrus products exceeding the standards will not be permitted to be exported.

3. We should welcome different varieties of tangerines and limit varieties of oranges. A tangerine-to-orange ratio has never been set in our exports to the Soviet Union. In this year's citrus trade contract between China and the Soviet Union, the ratio between tangerines and oranges has been set at one-half for each. This reflects the fact that in the Soviet market sales of oranges are rather weak, while tangerines are a hot-selling item. In recent years, Sichuan was exporting citrus to the Soviet Union at a ratio of 4 tangerines to 6 oranges. Because tangerines were in short supply in China last year and prices were high, citrus was exported to the Soviet Union at a ratio of 3 tangerines to 7 oranges. Thus, the ratio has been set in this year's citrus trade contract between China and the Soviet Union to suit commodity production to the market, with adjustments in the ratio between oranges and tangerines.

4. Small-sized fruit is not welcome. Last year there was a fairly large amount of small-sized fruit among China's fresh fruit exports. Thus, fruit dimensions have been increased in this year's citrus trade contract between China and the Soviet Union. In order to stabilize the foreign trade market and export more fruit, better fruit and larger fruit, in future management we should put down more fertilizer side-dressing, and in the management of next year's cultivation, we should implement flower- and fruit-thinning measures. With regard to fruit trees, we should change our outdated philosophy of "more trees means more abundance," and accommodate for the changes in the world fruit market.

In the past few years, world fruit production has increased sharply, and last year it totaled 54 million tons. Internationally, citrus trade is taking place not in a seller's market but in a buyer's market. Domestically, the situation is just the opposite, and thus such phenomena as early harvesting

and early selling, crude harvesting, backward packaging, and crude packing and unloading are occurring. Last year, a high percentage of Sichuan's citrus exported to the Soviet Union was rotten. We will experience difficulties with foreign sales unless we strive to improve the quality of citrus and prevent pesticide pollution. Thus, cadres and fruit farmers from citrus-producing regions as well as processing units must take the situation as a whole into consideration, and focus on their strengths. This year they should definitely improve the quality of citrus for domestic and foreign sales, and implement planned harvesting, technical harvesting, careful packing, preservatives, and transportation maintenance. They should competently handle coordination between various departments and strive to provide more citrus to Sichuan, provide more citrus for exports, and to earn more foreign currency.

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CSO: 4007/48

AGRICULTURE

GRAIN ENTERPRISE TRIAL QUOTAS SUCCESSFUL

Beijing ZHONGGUO SHANGYE BAO in Chinese 2 Aug 86 p 2

[Article: "Jilin Province Grain Enterprise Trial Quota Subsidy Brings Clear Results: 1985 Subsidy Losses Provincewide 60 Percent Lower Than 1981; Brings Total Savings in Provincial Financial Expenditures of 28.87 Million Yuan Over 4 Years"]

[Text] Reform of the system of managing grain finances in Jilin Province has resulted in closely integrating the financial and business affairs of enterprises, and clearly has increased the economic return.

Beginning in 1982 the Jilin Provincial Finance Department made the Provincial Grain Bureau responsible for implementing all grain and oil crop increased-price subsidies and grain-loss subsidies, a policy which did not change over 3 years. Within the province wide grain system, the Provincial Grain Bureau acted in line with the principle of "link grain with money, money and grain go hand-in-hand," and on a trial basis implemented quota subsidies in accordance with targets for grain and oil crop planned sales, actual storage and transfers to other areas, and tried out the profit-retention approach with the enterprises turning a profit. In 1985, grain finances were further transferred to lower levels to be administered by the municipalities, prefectures, and counties, and substituting for profits was implemented in all profit-making enterprises except for free market operations.

The following results were obtained through reform:

1. Enterprises Were Motivated To Sell, Transfer, and Store Increased Amounts of Grain. In the past, the greater an enterprise's operations the greater the losses, and there was little motivation for expanding operations. This situation changed after the advent of quota subsidies; since expanded operations became profitable for enterprises, the businesses and workers have become more enthusiastic, and they have worked hard to expand operations. In 1983 and 1984, grain and oil crop provincewide purchases amounted to 7.54 million tons and 8.27 million tons, respectively. The 1983 amount was a 103-percent increase over 1982, and the 1984 amount was a 123-percent increase. Provincewide average reserves of grain and oil crops amounted to 7.06 million tons in 1984 and 9.26 million tons in 1985, which was an increase of 156 percent and 230 percent over 1982, respectively. The amount of grain shipped out of the province or exported totaled 2.28 million tons in 1984 and 4.19

million tons in 1985, which were 69-percent and 210-percent increases over the 1982 amount, respectively. With respect to grain and oil crop sales, because grain and oil crop prices were inadequate, and subsidies for sales expenses were closely linked to grain and oil crop contractual targets, and since the average provincewide contract targets for grain sales for the 1982-1984 3-year period were not met, there was a definite cash surplus in the 1985 grain marketing plan.

2. Economic Results Were Increased for Enterprises, and Businesses were Enlivened. The losses suffered by the grain enterprises provincewide prior to subsidies amounted to 98.47 million yuan in 1985, down from losses amounting to 147.61 million yuan in 1981, which was a 60 percent drop. This includes a 16.1-percent drop in parity grain and oil crop operations losses in 1985 compared to 1981. Provincewide grain and oil crop profits for profit-generating enterprises amounted to 137.15 million yuan, nearly four times the 1981 total. After subsidies, 2 prefectures and 16 counties and municipalities experienced deficits in 1982; in 1983 to 1985, after reform, county after county experienced surpluses. The grain enterprises, in these 4 years, recovered a total of 133.43 million yuan in reduced losses and enterprise funds, which was an average of 33.36 million yuan per year; this was more than six times the yearly average for the 3 years prior to reform, and brought about improvements in enterprise production and business facilities and an increase in wages and material benefits to the workers.

3. The Financial Burden Was Lightened. From 1982 to 1984 the amount withdrawn from reserves each year was 6.7 million yuan less than the yearly average for the previous 3 years, which resulted in a total savings of 20.1 million yuan over the 3-year period. Actual expenditures from provincial financial reserves in 1985 were 87.7 million yuan less than estimated. Savings in expenditures of provincial finances over the 4 years amounted to 28.87 million yuan.

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CSO: 4007/005

AGRICULTURE

EXPANSION IN ANIMAL HUSBANDRY NOTED

Nanchang JIANGXI RIBAO in Chinese 30 Jul 86 p 1

[Article: "Marked Expansion in Animal Husbandry in Jiangxi Province: 3.6 Percent Increase in Hogs for First Half of This Year Compared to Same Period Last Year; 2 Percent Increase in Farm Cattle; 30 Percent Increase in Poultry"]

[Text] Zou Jixin [6760 4764 2450] reports that data of the Provincial Statistics Bureau show there was a notable increase in animal husbandry production in Jaingxi Province in the first half of this year.

There were 12,744,000 head of hogs on hand throughout the province, which is 449,000 head more than for the corresponding period the previous year, or a 3.6-percent increase. This includes 63,000 more sows, which is a 7.6-percent increase. The total number of hogs being raised amounted to 16,544,000 head. Meat hogs slaughtered amounted to 4.27 million head, which is 140,000 more than for the same period the preceding year, or a 3.4-percent increase; the amount of pork produced amounted to 298,000 tons, which is 20.5 percent more than for the same period the preceding year, and a new all-time record for a similar period.

The number of farm cattle on hand provincewide amounted to 2,534,000 head, which was 49,000 head greater than for the corresponding period the previous year, or a 2-percent increase; 26,000 head of beef cattle were marketed or slaughtered for home use, which was a 13-percent increase over the same period the preceding year; and milk production amounted to 8,250 tons, which was an increase of 25.7 percent.

The number of poultry readied for market provincewide for the first half of the year amounted to 75.57 million head, which was a 30-percent increase over the same period the previous year. There were 66,000 more rabbits than for the same period the previous year, which was an 18-percent increase.

A major reason for the marked expansion in animal husbandry in the province the first half of this year was the bumper grain harvests in recent years, which provided adequate feed sources. Concurrently, there was rapid expansion of the industry processing compound feeds, which satisfied the peasants' needs. A particularly important reason was that after hog prices were opened up and centralized and assigned procurement were abolished, the peasants were motivated even more to raise hogs, which promoted expanded livestock production.

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